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# BUDGETS FOR THE CUSTOMS SERVICE, ITC, AND USTR

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## HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-NINTH CONGRESS

FIRST SESSION

APRIL 3, 1985

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# BUDGETS FOR THE CUSTOMS SERVICE, ITC, AND USTR

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## WEDNESDAY, APRIL 3, 1985

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
*Washington, DC.*

The committee met, pursuant to notice, at 9:34 a.m., in room SD-215, Dirksen Senate Office Building, the Honorable John C. Danforth (chairman) presiding.

Present: Senators Danforth, Grassley, Symms, Long, Bentsen, Baucus, and Bradley.

[The press release announcing the hearing and the memo to committee members regarding budget authorizations follows:]

[Press Release No. 85-009]

### COMMITTEE ON FINANCE SETS HEARING ON BUDGETS OF CUSTOMS SERVICE, INTERNATIONAL TRADE COMMISSION AND THE OFFICE OF THE U.S. TRADE REPRESENTATIVE

Senator Bob Packwood (R-Oregon), Chairman of the Committee on Finance, announced today the scheduling of a hearing of the Subcommittee on International Trade on the requests for authorizations of appropriations for fiscal year 1986 by the U.S. International Trade Commission, U.S. Customs Service and the Office of the United States Trade Representative.

The hearing is scheduled to begin at 9:30 a.m., Wednesday, April 3, 1985, in Room SD-215 of the Dirksen Senate Office Building.

Senator John C. Danforth (R-Missouri), Chairman of the Committee on Finance's International Trade Subcommittee, will preside at the hearing.

Senator Danforth is particularly interested in receiving testimony about the adequacy of inspections and other commercial entry services provided by the Customs Service, including the geographic distribution of personnel providing those services.

He also seeks testimony on the adequacy of the Customs Service's program for automation of commercial entry processing.

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### STATEMENT BY SENATOR MAX BAUCUS

#### INTRODUCTION

Mr. Chairman, the four agencies we are reviewing today—the ITC, the ITA, USTR, and the Customs Service—all perform functions that are vital to America's international trade performance.

That's why this annual authorization hearing is important, and deserves our close attention.

But I'm beginning to feel a sense of "deja vu."

Every year the Customs Service comes up here and proposes some novel reorganization plan. Sometimes, the proposal is sublime. This time, it's ridiculous.

#### THE REIMBURSABLE PORTS PROPOSAL

I call your attention to the proposal for "reimbursable ports."

The United States Customs Service believes that there are about 200 ports that do not handle enough activity to justify the federal expense of keeping them open.

So, Customs proposes to close them . . . unless a state or local government "reimburses" the federal government's operating expenses.

At first blush, this might sound like some kind of "New Federalism."

But it's not. It's just a disguised way of passing the buck. Let me explain why.

*Federal Responsibility.*—For many people in Montana, especially along the Highline, Edmunton or Calgary are the closest major cities. People go there to make sales, buy supplies, or otherwise conduct business.

By an accident of political geography, you have to cross the border to get there.

The Federal Government has decided that the border cannot be open. And it decided this because of national interests.

Regulating these borders was one of the first functions of the Federal government. The second act of Congress in 1789 was to impose duties and the fifth act was to establish customs districts.

At the same time, the Federal government has always tried to regulate the U.S.-Canadian border with as little disruption as possible of the lives of the people living there. Now that's about to change.

Now, the Customs Service wants the people of Wolf Point and Cutbank to pay for the privilege of having their trucks searched and having duties imposed.

That's like asking people to pay for an IRS audit. Maybe we can make a deal.

We'll pay for the ports. But we'll run them, too. We'll keep the duties. And we'll decide how much of that Canadian lumber we'll let them send to Denver.

*Proposal won't work.*—The Customs proposal is not only theoretically unsound. It's impractical, requiring local governments to pay for keeping a border station open simply won't work.

In Montana, for example, the border is 300 miles long. Most of the counties along the border have sparse populations—less than 3000.

Closing down even one of these stations will require travelers to detour 300–400 additional miles.

These counties depend on the access to the northern Canadian towns and vice versa. Yet, with such limited tax base, it is unreasonable to expect them to pay for a border station.

But not all of the stations are critical to just local use. Some of the stations in Montana which will be in jeopardy are used 90 percent of the time by long-range travelers or long-range carriers. Local communities will have little incentive to keep these stations open.

### INAPPROPRIATE USER FEE FUNCTION

I am not opposed to "user fees" per se. This concept makes sense for fuel taxes, grazing fees, or campground fees. But, user fees don't work everywhere.

Border stations along our borders will not all be money makers. We simply need to provide as many stations as necessary for public convenience and free trade.

I know that the 13 stations proposed for "reimbursable port" status in Montana are necessary, and are not the responsibility of the state or local government. They are the responsibility of the Federal government; and the Federal government should pay for them.

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## BACKGROUND INFORMATION BY SUBCOMMITTEE STAFF

### HEARING ON APRIL 3, 1985 REGARDING BUDGET AUTHORIZATIONS FOR THE OFFICE OF THE U.S. TRADE REPRESENTATIVE, THE INTERNATIONAL TRADE COMMISSION, AND THE U.S. CUSTOMS SERVICE

The Subcommittee on International Trade will conduct a hearing on Wednesday, April 3, at 9:30 a.m., concerning the requests for these agencies for authorizations of appropriations for fiscal year 1986 (FY86). The agencies are the Office of the U.S. Trade Representative, the U.S. International Trade Commission (ITC), and the U.S. Customs Service.

### 1. USTR

Section 141 of the 1974 Trade Act established the Office of the U.S. Trade Representative and its responsibilities, which include representing the United States in trade negotiations and administering the trade agreements program; advising the President and the Congress on trade matters, including commodity investment-related trade issues; and chairing the Cabinet-level Trade Policy Committee. The Congress last year authorized $14,179,000 for FY85; only $13,582,000 was appropriated.

For fiscal year 1986, USTR requests an authorization of $11,431,000, a decrease of $2,152,000 (16%) from the 1985 appropriated amount. According to the agency budget submission, this reduction results from these Administration-wide budget initiatives: (a) A 1-year freeze in program costs; (b) a 10 percent cut in administrative expenses; and (c) a 5 percent cut in pay.

### 2. U.S. INTERNATIONAL TRADE COMMISSION

Section 330(e) of the Tariff Act of 1930 requires an authorization of appropriations for the ITC to be enacted for each fiscal year. Appropriations requested by the ITC must be included in the President's budget without revision.

The USITC is an independent fact-finding agency charged with performing important functions in the administration of U.S. trade laws and in the conduct of U.S. trade policy. The Commission holds administrative hearings, and carries out economic investigations at the request of Congress, the President, or on its own initiative. Its findings are reported to the Congress and to the Executive Branch as either technical advice or as specific, quasi-judicial determinations in cases brought under the trade laws.

Some of the laws that the Commission administers include:

(a) The import relief provisions of the Trade Act of 1974. The Commission determines whether fairly traded imports are injuring a domestic industry and recommends to the President relief for injured industries.

(b) The antidumping laws and countervailing duty laws. While the Commerce Department determines whether imports are dumped or subsidized, the Commission determines whether or not the allegedly dumped or subsidized imports are injuring a domestic industry.

(c) Other unfair import practice laws, involving mostly cases of alleged patent or copyright violations.

Last year, the Congress approved an authorization of $28,410,000, and an appropriation of $24,830,000. A pay supplemental, if approved, would bring this total to $25,379,000. Fiscal year 1986, the ITC seeks an authorization of $28,901,000. This amount entirely reflects built-in increases; the Commission is not seeking a program increase of any sort.

### 3. UNITED STATES CUSTOMS SERVICE

Section 301 of the Customs Procedural Reform and Simplification Act of 1978 requires an annual authorization of appropriations for the U.S. Customs Service. The Customs Service is primarily responsible for the collection of customs duties. It also has responsibility for administering over 400 laws and regulations relating to the importation and the exportation of products. These laws range from agricultural inspection, copyright, and patent laws to certain aspects of the Internal Revenue Code.

For FY85, the Congress approved an authorization of $686,399,000 for Customs, and an appropriation of $643,465,000. The Service has requested a supplemental appropriation of $8,446,000, and a budget rescission of $1,223,000. If both are approved, the fiscal year 1985 operating level would be $650,686,000.

For fiscal year 1986, the Service requests an authorization of $639,102,000. Besides sums necessary to maintain current operating levels, this amount includes new program increases of $19,429,000, and program reductions of $31,015,000. The latter are largely attributable to a proposed reduction in personnel of 887 positions.

The Service states that the personnel reductions will be achieved because of "productivity, streamlined operations, and the elimination of duplicative or related functions." The following describes the reductions by functions.

a. *Inspection and Control.*—In its "inspection and control" function Customs is charged with enforcing laws relating to carriers, cargo, and persons entering or departing the country through ports of entry. These responsibilities include duty collection, enforcement of quotas and other trade restraint agreements, and interception of contraband, including drugs. The Service proposes to reduce current staffing levels by 351 positions for this function, representing a savings of $3,099,000. The Serivce argues that these reductions are possible through greater use of automated processing systems and inspection selectivity techniques.

b. *Tariff and Trade.*—Under its "Tariff and Trade" function the Service includes its responsibilities for appraising, classifying, and collecting normal duties on imported merchandise and monitoring trade flows. The Service proposes to reduce this function by 437 positions, again through greater automation, centralization of services, and selectivity. This reduction in personnel would mean a savings of $20,220,000.

c. *Tactical Interdiction.*—The third Customs function is "tactical interdiction." Programs under this function are aimed principally at countering narcotics and contraband smuggling. The Service plans to eliminate 60 positions relating to this function, for a savings of $680,000.

d. *Investigations.*—The last Customs function is "investigations". Under this program Customs investigates violations of laws relating to import fraud, cargo theft, smuggling, and illegal exports of critical technology. The Service proposes to cut 39 positions in this function, at a savings of $7,016,000.

The following charts outline the proposed Customs Service authorization.

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### U.S. CUSTOMS SERVICE RECAP OF BUDGET AUTHORITY/ESTIMATES

[Dollars in thousands]

| | Proposed level for fiscal year 1985 | | | Proposed level for fiscal year 1986 | | |
|---|---|---|---|---|---|---|
| | Permanent positions | Average positions | Amount | Permanent positions | Average positions | Amount |
| Salaries and expenses | 13,500 | 13,418 | 650,688 | 12,614 | 12,531 | 639,102 |
| Operations and maintenance | | | 44,425 | | | 60,425 |
| Forfeiture fund | | | 6,000 | | | 8,000 |
| User fees at certain small airports | | 1 | 42 | | 1 | 75 |

### 4. CUSTOMS REORGANIZATION

For the past several years the Service has sought to reorganize by reducing or eliminating personnel engaged in commercial processing services at many ports and by consolidating various administrative activities. Concern over reorganization plans induced the Committee last year to require the Service to notify the Committee 90 days in advance of any significant reorganization move.

The proposed FY86 budget again contemplates significant reorganization moves that are intended to eliminate 887 positions. 645 of these saved positions will result from consolidation and centralization of various administrative functions. In December, the Service notified the Committee of its intention to implement the first part of these plans, and it has now begun to do so.

These are the elements of the consolidation program:

a. *Centralize administrative functions.*—The Service will place most financial, management, and data processing support facilities in Indianapolis. This move is expected to be completed by October 1, 1985. 280 positions will be eliminated from various district and regional offices.

b. *Regional consolidation.*—Customs proposes to eliminate two of the seven present regional offices. The Service estimates that 93 positions will be saved by this consolidation.

c. *Laboratory consolidation.*—Customs seeks to consolidate its present 6 laboratories into 2, leaving one on each coast. 50 positions would be eliminated as a result.

d. *Redesignate districts.*—Currently there are 45 Customs districts and 57 merchandise appraisement centers. The Service proposes to consolidate and to redesignate these into 29 combined districts and centers. 304 positions would be saved.

e. *Centralize drawback activities.*—When an article is reexported after import duties have been paid, the importer may be able to claim a refund. This refund is called a "drawback". Customs proposes to consolidate its nine administrative drawback operations into a single location, for a savings of 16 positions.

f. *Reimburseable ports initiative.*—In addition to the 280 positions that the above consolidations would eliminate, Customs may propose legislation to achieve further savings by authorizing the Service to operate small offices on a reimbursable basis. About 200 ports of entry are estimated to fall within Customs' proposal; if legislation were enacted and the services were not reimbursed, the Customs offices would be closed. Assuming that legislation is timely enacted, Customs estimates that 111 positions would be saved in FY86.

### 5. CUSTOMS USERS FEES

The Budget Committee, in its instructions to the Finance Committee, assumed the Committee would raise $493 million in customs users fees. This would require the enactment of legislation. The Service has not yet proposed any specific schedule of fees.

Senator **Danforth**. Mr. Whitfield and Mr. Rohr, why don't you both take a seat at the table and when Commissioner von Raab arrives, then we can hear the testimony one right after another, if that is all right with you.

Mr. Whitfield?

## STATEMENT OF DENNIS WHITFIELD, CHIEF OF STAFF, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. **Whitfield**. Thank you, Mr. Chairman. If it is all right with you, I think we will submit the short statement that we have for the record, and let me just summarize our budget request, if I may. We have a budget proposal of $11.431 million, which represents the cut of a little over $2 million from the last fiscal year. There are some specific things in here that would bear mentioning for a moment, and within this cut, we are also assuming about a $215,000 salary increase for which we will not go in for a supplemental this year. And in addition, if we are planning to push forward on the preparations for a new round of negotiations that Ambassador Brock has taken the lead on for quite some time——

The **Chairman**. Could you repeat that please?

Mr. **Whitfield**. In addition, if we are able to push forward and make some progress with our other trading partners toward the preparation for a new round of negotiations, Ambassador Brock has taken that lead and been in the front on it for some time. Our estimate is that in this budget year that there would be a budget outlay of a little over $300,000 for a few workyears and travel. We will do our very best with the present budget request to take care of a little over $1 million, which we think, will be necessary to continue the harmonized system work in fiscal year 1986 that is ongoing in Geneva. In addition, we will probably get to the point where we will ask some of our reimbursable details—resources that we have had from other departments—to return to their home agencies or departments, and have to take a pretty strong look at the contract employees that we have that are doing specific functions. So, it would be accurate, I think, to say that we are at a point where it is a conscious belt-tightening process, but we feel like we have the resources. We will maintain our 136 full-time equivalents or workyear allocation. So, we will be able to support the nucleus of our professional operation, and I believe deliver a quality product and continue working relationships that we have with the Congress, the private sector, and our trading partners. That, in summary, is pretty much where we are for the coming year. If you have any questions, I would be glad to try to respond.

Senator **Danforth**. All right. Thank you. Mr. Rohr?

[Mr. Whitfield's prepared written statement follows:]

## TESTIMONY OF DENNIS E. WHITFIELD, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION

MR. CHAIRMAN, I AM PLEASED TO APPEAR BEFORE YOU TO PRESENT THE OFFICE OF THE U.S. TRADE REPRESENTATIVE'S RESOURCE REQUEST FOR FISCAL YEAR 1986. WITH ME IS THE ASSISTANT U.S. TRADE REPRESENTATIVE FOR CONGRESSIONAL RELATIONS, BILL MARONI, AND THE DIRECTOR OF OUR OFFICE OF MANAGEMENT, JOHN GIACOMINI.

THE PRESIDENT'S BUDGET AND THE RESOURCE REQUEST WHICH WE SUBMITTED TO YOU REFLECT THE PROGRAM FREEZE, 10% ADMINISTRATIVE COST REDUCTIONS AND A 6% PAY CUT THAT HAVE BEEN PROPOSED FOR MOST FEDERAL AGENCIES.

LAST YEAR, WE REPORTED TO YOU ON THE PLANNING FOR THE IMPLEMENTATION OF THE HARMONIZED SYSTEM OR HS. THIS SYSTEM WILL PROVIDE A NEW INTERNATIONAL, INTEGRATED TARIFF STRUCTURE TO REPLACE THE CURRENT, BURDENSOME U.S. TARIFF CODE. THE USTR IS THE LEAD AGENCY FOR IMPLEMENTATION OF THE HS, NOW SCHEDULED TO GO INTO EFFECT IN JANUARY 1987.

THE HS IS A STREAMLINED, INTERNATIONAL PRODUCT CODING AND DESCRIPTION SYSTEM. IT WILL BE A USEFUL TOOL FOR MORE EFFICIENT HANDLING OF VARIOUS TYPES OF TRADE TRAFFIC, TARIFFS, AND FOR THE COLLECTION OF SATISTICAL DATA WHICH WILL DIRECTLY IMPACT IMPORTERS, EXPORTERS, TRAFFIC MANAGERS, AND CUSTOMS OFFICIALS THROUGHOUT THE WORLD. A COMMON CODE AND TARIFF LANGUAGE WILL GREATLY FACILITATE INTERNATIONAL TRADE BY ENSURING THAT PRODUCTS ARE CLASSIFIED IN THE SAME MANNER AS THEY MOVE FROM COUNTRY TO COUNTRY, REDUCING THE COST OF EXPORTING FOR U.S. PRODUCERS, MAKING THE COLLECTION AND COMPARISON OF TRADE STATISTICS EASIER, AND PROMOTING MORE CERTAINTY AND UNDERSTANDING IN THE NEGOTIATION, APPLICATION, AND INTERPRETATION OF TRADE AGREEMENTS.

THIS IS AN ENORMOUS, COMPLEX UNDERTAKING WHICH IS LABOR AND DATA INTENSIVE. DURING THE PAST YEAR, WE HAVE MADE PROGRESS TOWARD OUR GOAL BY BEGINNING THE STAFFING FOR THE HARMONIZED SYSTEM IN GENEVA - THE CHIEF NEGOTIATOR FOR HS AND A SENIOR ATTACHE ARE NOW IN GENEVA; THE LINE-BY-LINE REVIEW OF THE ITC'S CONVERSION OF THE U.S. TARIFF SCHEDULES HAS BEEN COMPLETED. NEGOTIATIONS WITH THE CONTRACTING PARTIES CONTINUE IN GENEVA, UNDER THE AUSPICES OF THE GATT.

DURING 1985, WE WILL MOVE FORWARD ON THE RENEGOTIATION OF BOUND TARIFFS TO ASSURE THAT THE BALANCE OF TARIFF OBLIGATIONS IS MAINTAINED. THE GENEVA WORK PROGRAM HAS EVOLVED IN TWO PHASES. PHASE ONE WAS THE GATT ARTICLE 28 EXERCISE ON THE HARMONIZED SYSTEM AND WAS LAUNCHED IN A TWO WEEK SERIES OF BILATERAL MEETINGS IN GENEVA IN DECEMBER 1984. THIS PHASE CONSISTS OF TECHNICAL DISCUSSIONS AIMED AT IDENTIFYING CLASSIFICATION AND NOMENCLATURE ERRORS AND NARROWING THE NUMBER OF ISSUES WHERE NEGOTIATION WILL BE NECESSARY. WE EXPECT TO COMPLETE THIS PHASE BY MID-SUMMER. OVER THE AUGUST RECESS WE WILL BE ASSESSING THE EFFECT ON U.S. EXPORTS OF CHANGES IN RATES OF DUTY IN FOREIGN SCHEDULES AND WILL PREPARE FOR PHASE II OF THE HS EXERCISE, THAT IS, THE FORMAL

ARTICLE 28 NEGOTIATIONS WHICH ARE EXPECTED TO BEGIN IN SEPTEMBER. OUR OBJECTIVE IS TO CONCLUDE THE NEGOTIATIONS BY DECEMBER 1985 SO THAT CONGRESSIONAL CONSIDERATION OF THE IMPLEMENTING LEGISLATION CAN BEGIN EARLY IN 1986. WE WILL BEGIN CLOSE CONSULTATIONS WITH CONGRESSIONAL COMMITTEES ON THE HARMONIZED SYSTEM IN THE NEAR FUTURE.

AS THE PRESIDENT INDICATED IN HIS STATE OF THE UNION MESSAGE, ANOTHER MAJOR U.S. TRADE POLICY OBJECTIVE IS TO LAUNCH A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS IN 1986. WE BELIEVE THAT NEW NEGOTIATIONS ARE ESSENTIAL TO IMPLEMENT THE COMMITMENTS MADE TO ROLLBACK PROTECTIONIST MEASURES AT BOTH THE WILLIAMSBURG AND LONDON ECONOMIC SUMMITS. A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS WOULD GREATLY CONTRIBUTE TO WORLDWIDE ECONOMIC RECOVERY BY EXPANDING TRADE OPPORTUNITIES, ADDRESSING SPECIFIC FORMS OF PROTECTIONISM, IMPROVING THE FUNCTIONING OF THE GATT, AND EXTENDING INTERNATIONAL TRADE RULES TO NEW AREAS SUCH AS SERVICES, INTELLECTURAL PROPERTY RIGHTS AND INVESTMENT, THAT ARE CRUCIAL TO THE FUTURE GROWTH OF WORLD TRADE.

WE WILL BE WORKING CLOSELY WITH MEMBERS OF THIS COMMITTEE, THE PRIVATE SECTOR AND THE LABOR COMMUNITY AS WE MOVE FORWARD WITH THIS CRITICAL INITIATIVE. WE CANNOT HOPE FOR INTERNATIONAL SUCCESS UNTIL WE HAVE A FIRM CONSTITUENCY HERE AT HOME FOR THIS UNDERTAKING. THE ADVICE WE WILL BE SOLICITING FROM ALL OF YOU

## ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985

[Dollars in thousands]

| | Permanent positions | Average positions | Amount |
|---|---|---|---|
| 1985 appropriation enacted by Congress | | | 44,425 |
| Estimate, 1986 | | | 60,425 |

## DIGEST OF BUDGET ESTIMATES BY ACTIVITIES, FISCAL YEAR 1986

| | Appropriation fiscal year 1984 | | Authorized level fiscal year 1985 | | Budget estimate fiscal year 1986 | | Increase or decrease (—) for fiscal year 1986 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Total changes | | Program changes | | Other changes | |
| | Average positions | Amount | Average positions | Amount | Average positions | Amount | Average positions | Amount | Average positions | Amount | Average positions | Amount |
| 1. Air operations and maintenance | | 34,252 | | 44,425 | | 60,425 | | 16,000 | | 16,000 | | |
| Unobligated balance | | 21,748 | | | | | | | | | | |
| Total appropriation, and authorized level, and budget estimate | | 56,000 | | 44,425 | | 60,425 | | 16,000 | | 16,000 | | |
| Permanent positions established | | | | | | | | | | | | |

Note: Unobligated balance includes $21,204,000 in no-year funding.

## ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985

[Dollars in thousands]

| | Permanent positions | Average positions | Amount |
|---|---|---|---|
| 1985 appropriation enacted by Congress | 13,470 | 13,392 | 643,465 |
| Adjustments: | | | |
| (1) Proposed pay raise supplemental | | | 6,246 |
| (2) Proposed program supplemental (OCDE) | 30 | 26 | 2,200 |
| (3) Proposed rescission | | | —1,223 |

## ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985—Continued

[Dollars in thousands]

|  | Permanent positions | Average positions | Amount |
|---|---|---|---|
| Proposed authorized level for 1985 | 13,500 | 13,418 | 650,688 |
| Estimate, 1986 | 12,614 | 12,531 | 639,102 |

## DIGEST OF BUDGET ESTIMATES BY ACTIVITIES, FISCAL YEAR 1986

|  | Appropriation fiscal year 1984 |  | Authorized level fiscal year 1985 |  | Budget estimate fiscal year 1986 |  | Increase or Decrease (–) for fiscal year 1986 |  |  |  |  |  |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
|  |  |  |  |  |  |  | Total changes |  | Program changes |  | Other changes |  |
|  | Average positions | Amount | Average positions | Amount | Average positions | Amount | Average positions | Amount | Average positions | Amount | Average positions | Amount |
| 1. Inspection and control | 6,532 | 286,982 | 6,576 | 294,922 | 6,225 | 298,305 | –351 | 3,383 |  | 6,482 | –351 | –3,099 |
| 2. Tariff and trade | 3,541 | 149,418 | 3,522 | 158,736 | 3,085 | 147,370 | –437 | –11,366 |  | 8,854 | –437 | –20,220 |
| 3. Tactical interdiction | 1,844 | 75,754 | 1,866 | 100,340 | 1,806 | 101,547 | –60 | 1,207 |  | 1,887 | –60 | –680 |
| 4. Investigations | 1,402 | 83,888 | 1,454 | 96,690 | 1,415 | 91,880 | –39 | –4,810 |  | 2,206 | –39 | –7,016 |
| Unobligated balance |  | 3,439 |  |  |  |  |  |  |  |  |  |  |
| Total appropriation, and authorized level, and budget estimate | 13,319 | 599,481 | 13,418 | 650,688 | 12,531 | 639,102 | –887 | –11,586 |  | 19,429 | –887 | –31,015 |
| Permanent positions established | 13,370 |  | 13,500 |  | 12,614 |  | –886 |  |  |  | –886 |  |

Note.—Unobligated balance includes $3,385,000 in no-year funding.

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1985

[Dollars in thousands]

| | Inspection and control | | | Tariff and trade | | | Tactical interdiction | | | Investigations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Positions | Average positions | Amount | Positions | Average positions | Amount | Positions | Average positions | Amount | Positions | Average positions | Amount | Positions | Average positions | Amount |
| Program changes: | | | | | | | | | | | | | | | |
| A. Implementation of management savings | | | 2,762 | | | 1,054 | | | 787 | | | 626 | | | 5,229 |
| B. Management initiatives: | | | | | | | | | | | | | | | |
| Fiber optics | | | 300 | | | | | | | | | | | | 300 |
| integrated data telecommunications network | | | 700 | | | 700 | | | 700 | | | 700 | | | 2,800 |
| Automated commercial system | | | | | | 6,600 | | | | | | | | | 6,600 |
| Treasury enforcement communications system II | | | 2,720 | | | | | | 400 | | | 880 | | | 4,000 |
| Wind tunnel | | | | | | 500 | | | | | | | | | 500 |
| Total, program changes | | | 6,482 | | | 8,854 | | | 1,887 | | | 2,206 | | | 19,429 |
| Other Changes: | | | | | | | | | | | | | | | |
| A. Increases necessary to maintain current levels: | | | | | | | | | | | | | | | |
| Net cost of within grade salary increases | | | 1,613 | | | 806 | | | 452 | | | 354 | | | 3,225 |
| Grade-to-grade promotions | | | 327 | | | 163 | | | 91 | | | 72 | | | 653 |
| Payment to Employee Compensation Fund | | | 294 | | | 147 | | | 82 | | | 65 | | | 588 |
| Payment to Unemployment Compensation Fund | | | 193 | | | 97 | | | 54 | | | 43 | | | 387 |
| Increased costs of employee benefits | | | 761 | | | 380 | | | 213 | | | 167 | | | 1,521 |
| Payment to Social Security Trust Fund | | | 334 | | | 167 | | | 94 | | | 73 | | | 668 |
| Increased pay cost: | | | | | | | | | | | | | | | |
| a. FY 1984 pay increase | | | 1,079 | | | 540 | | | 302 | | | 237 | | | 2,158 |
| b. FY 1985 pay increase | | | 4,699 | | | 2,379 | | | 1,470 | | | 1,106 | | | 9,654 |
| Travel and transportation cost | | | 550 | | | 274 | | | 154 | | | 121 | | | 1,099 |
| Permanent change of station moves | | | 485 | | | 242 | | | 136 | | | 106 | | | 969 |
| Payment to GSA | | | 2,882 | | | 44 | | | 25 | | | 20 | | | 2,971 |
| Chargeback to FLETC for student services | | | 50 | | | 25 | | | 14 | | | 11 | | | 100 |
| Cost of FTS and other communications | | | 1,359 | | | 680 | | | 381 | | | 298 | | | 2,718 |
| Equipment leasing and maintenance costs | | | 693 | | | 346 | | | 194 | | | 152 | | | 1,385 |
| Extra holiday (Martin Luther King) | | | 163 | | | 82 | | | 46 | | | 36 | | | 327 |
| Printing costs | | | 71 | | | 35 | | | 20 | | | 15 | | | 141 |
| Costs of outside contracts | | | 386 | | | 193 | | | 108 | | | 85 | | | 772 |

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1985—Continued

[Dollars in thousands]

| | Inspection and control | | | Tariff and trade | | | Tactical interdiction | | | Investigations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Positions | Average positions | Amount | Positions | Average positions | Amount | Positions | Average positions | Amount | Positions | Average positions | Amount | Positions | Average positions | Amount |
| Reimbursements of services of other Government agencies | | | 252 | | | 126 | | | 71 | | | 55 | | | 504 |
| Cost of supplies | | | 251 | | | 126 | | | 71 | | | 55 | | | 503 |
| Equipment procurement | | | 133 | | | 67 | | | 37 | | | 29 | | | 266 |
| Subtotal, maintaining current level | | | 16,575 | | | 6,919 | | | 4,015 | | | 3,100 | | | 30,609 |
| B. Reductions, nonrecurring costs, and savings: | | | | | | | | | | | | | | | |
| Reductions: Pay reduction (5 percent) | | | −8,596 | | | −4,424 | | | −2,569 | | | −2,011 | | | −17,600 |
| Nonrecurring costs: | | | | | | | | | | | | | | | |
| Radio voice privacy | | | | | | | | | | | | −5,409 | | | −5,409 |
| Automated commercial system | | | | | | −6,600 | | | | | | | | | −6,600 |
| Integrated data telecommunications network | | | −469 | | | −469 | | | −469 | | | −468 | | | −1,875 |
| Organized crime drug enforcement [OCDE] | | | | | | | | | | | | −1,100 | | | −1,100 |
| Management savings: | | | | | | | | | | | | | | | |
| Managerial efficiencies | | | | −145 | −146 | −5,618 | | | | | | | −146 | −146 | −5,618 |
| Organizational consolidation and realignment | −94 | −95 | −3,614 | −211 | −211 | −8,434 | −25 | −25 | −960 | −19 | −19 | −730 | −349 | −350 | −13,738 |
| Centralized administrative services | −145 | −145 | −2,890 | −80 | −80 | −1,594 | −35 | −35 | −697 | −20 | −20 | −398 | −280 | −280 | −5,579 |
| Operational efficiencies derived from reimbursable ports | −111 | −111 | −4,105 | | | | | | | | | | −111 | −111 | −4,105 |
| Subtotal, reductions, nonrecurring costs, and savings | −350 | −351 | −19,674 | −437 | −437 | −27,139 | −60 | −60 | −4,695 | −39 | −39 | −10,116 | −886 | −887 | −61,624 |
| Total, other changes | −350 | −351 | −3,099 | −437 | −437 | −20,220 | −60 | −60 | −680 | −39 | −39 | −7,016 | −886 | −887 | −31,015 |
| Total, increases or decreases in fiscal year 1986 compared with proposed fiscal year 1985 authorized level | −350 | −351 | −3,383 | −437 | −437 | −11,366 | −60 | −60 | −1,207 | −39 | −39 | −4,810 | −886 | −887 | −11,586 |

IN THE COMING MONTHS WILL GUIDE US IN OUR DISCUSSIONS.

WHILE MUCH ATTENTION HAS BEEN PLACED ON OUR EFFORTS TO MOVE FORWARD WITH A NEW ROUND, THERE ARE A HOST OF BILATERAL DISCUSSIONS THAT ARE MOVING FORWARD WITH VARYING DEGREES OF SUCCESS. I WILL NOT TAKE YOUR TIME TO ENUMERATE THE STATUS OF ALL OUR BILATERAL ISSUES, BUT BRIEFLY MENTION A FEW AREAS THAT DESERVE HIGHLIGHTING.

AS YOU ARE AWARE THE 1984 TRADE ACT PASSED BY CONGRESS LAST SESSION GAVE US AUTHORITY TO BEGIN DISCUSSIONS WITH OUR LARGEST TRADING PARTNER AND CLOSE ALLY, CANADA. WE ARE HOPEFUL THAT WITHIN THE NEXT FEW MONTHS WE CAN BEGIN DISCUSSIONS WITH THE CANADIANS TO RESOLVE A NUMBER OF TRADE DISPUTES BETWEEN OUR TWO COUNTRIES TO OUR MUTUAL ADVANTAGE. AS YOU KNOW, THERE CURRENTLY EXIST ISSUES THAT NEED TO BE ADDRESSED. IN SEVERAL WEEKS, WE ARE PLANNING TO MEET ON THE TIMBER AND WOOD PRODUCTS SECTORS AND THAT EXCHANGE OF INFORMATION WILL BE A POSITIVE START.

ALSO, I AM HAPPY TO REPORT THAT PRESIDENT REAGAN AND CANADIAN PRIME MINISTER MULRONEY HELD FRUITFUL DISCUSSIONS ON WAYS TO REDUCE AND ELIMINATE IMPEDIMENTS TO CROSS- BORDER TRADE. JAMES KELLEHER, MINISTER OF INTERNATIONAL TRADE, AND AMBASSADOR BROCK HAVE BEEN INSTRUCTED TO ESTABLISH A BILATERAL MECHANISM AS A

FOLLOW-UP TO THIS MEETING TO FACILITATE TRADE AND INVESTMENT FLOWS BETWEEN OUR TWO COUNTRIES. WE WILL REPORT TO THE PRESIDENT, THE PRIME MINISTER, AND THE CONGRESS ON OUR PROGRESS IN SIX MONTHS.

AMBASSADOR BROCK RECENTLY RETURNED FROM A TRIP TO JAPAN, AT WHICH TIME, WE COMPLETED THE JOINT DECLARATION ON THE SEMICONDUCTOR TARIFF ELIMINATION. DISCUSSIONS WERE HELD WITH PRIME MINISTER NAKASONE AND OTHER HIGH-RANKING OFFICIALS ON THE IMPORTANT SECTORS OF TELECOMMUNICATIONS, TIMBER AND WOOD PRODUCTS, AND COMPUTERS.

WE ARE USING EVERY MEANS POSSIBLE TO INCREASE PRODUCTIVITY AND MANAGERIAL EFFECTIVENESS WITH THE RESOURCES WE HAVE. FOR INSTANCE, TO SUPPLEMENT OUR PERMANENT STAFF AND TO HOLD DOWN COSTS, WE USE NONREIMBURSABLE DETAILS, WHITE HOUSE FELLOWS, AND PRESIDENTIAL MANAGEMENT INTERNS. WE ARE CONTINUING OUR SUCCESSFUL VOLUNTEER UNIVERSITY INTERN PROGRAM. THAT PROGRAM HAS GROWN RAPIDLY - WE NOW HAVE 45-50 INTERNS EACH YEAR OUT OF MORE THAN 300 APPLICANTS. THEY PROVIDE USEFUL RESEARCH AND STATISTICAL SUPPORT BESIDES GETTING AN INSIDE VIEW OF THE OPERATIONS OF A GOVERNMENT AGENCY. THIS PROGRAM ALONE SAVES US MORE THAN $100,000 EACH YEAR. ALSO,

WE ARE CONTINUING TO EXERCISE TIGHT CONTROL OVER ALL EXPENDITURES AND ESPECIALLY FOR OVERTIME, TRAVEL, AND PROCUREMENT. WE HAVE

ALSO COMPLIED WITH THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 BY SUBMITTING POSITIVE REPORTS TO THE PRESIDENT AND TO THE CONGRESS ON INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS.

MR. CHAIRMAN, WE BELIEVE THAT OUR REQUEST REFLECTS BUDGET RESTRAINT. WE PLAN TO MEET OUR MANDATES THROUGH CONTINUOUS REVIEW OF OUR PRIORITIES AND UTILIZATION OF THE RESOURCES WHICH WE HAVE.

I WOULD BE PLEASED TO RESPOND TO YOUR QUESTIONS.

## STATEMENT OF DAVID ROHR, COMMISSIONER, U.S. INTERNATIONAL TRADE COMMISSION

Mr. ROHR. Good morning, Mr. Chairman. Thank you very much for this opportunity to present the Commission's budget request for fiscal year 1986. With me today are Commissioners Eckes and Lodwick, who are right behind me, and Richard Arnold, our budget expert, seated to my right. In asking me to testify this morning, Mr. Chairman, Chairwoman Stern sent her regrets since she is out of the country on official business.

You have our full statement, so in the interest of brevity, I would like to offer just a few highlights at this time. The budget request approved by the Commission totals $28,901,000 and 482 full-time permanent positions. This is an increase of $3.5 million over our fiscal year 1985 appropriation. However, this is essentially a request to fund operations at the level Congress already authorized for fiscal year 1985. No program increases were funded by this request. Rather, the amount is necessary to fund our current programs at the 1985 authorized strength throughout the entire year of fiscal 1986.

Mr. Chairman, this amount represents the bare minimum necessary to meet our obligations for what we expect will be an extremely busy year and, indeed, already is. The actual number of investigations undertaken are beyond our control, as you know, since basically our job is to respond to petitions under statutes that fix our responsibilities and our deadlines. This point is illustrated almost daily as new petitions arrive at our front doorstep seeking redress of the injurious effects—subsidized or dumped imports.

The Commerce Department, I understand, in an effort to respond to these same petitions under the antidumping and countervaling duty laws, has requested an increase in fiscal year 1986 of 37 positions and $1,810,000 for its International Trade Administration. Also, recent statements by officials of other trade-related agencies lead us to believe that they will increasingly request our assistance in meeting their responsibilities. We are requesting no staff increases to meet this growing workload or for any of the other burgeoning demands or resources.

Our fiscal year 1986 request was developed in an atmosphere of mounting pressure due to continued tensions in international trade. Although recent statistics showed that 1984 was a record year for economic growth in the United States, the $123.3 billion trade deficit was also unprecendented—in fact, the third consecutive record-breaking year. Mr. Chairman, the ITC has become a MASH unit for the industrial and agricultural victims of these massive trade flows.

When my colleague, Commissioner Eckes, addressed you last year as Chairman of this Commission, he reported that the ITC was under siege.

Today, I have to report that the siege has intensified. In 1984 we initiated 203 cases, and that had been an increase of 26 percent over the previous year. Now, our latest figures for the first quarter of fiscal year 1985, show an additional 32 percent increase in our workload, compared to the first quarter of fiscal year 1984. Indeed, our caseload so far this year is again exceeding the projections on which our budget request was made. I might note in this connection that our rate of litigation has increased in the past several years by almost 500 percent. At this point, over 60 percent of our determinations are appealed which means a much heavier than normal load on the general counsel's office.

There's little prospect that the forces producing so many requests for import relief will recede any time in the near future. Part of the surge in our caseload can be traced to the steep appreciation of the dollar in the last 4 years which has drawn foreign products into U.S. markets. All types of industries, both manufacturing and agricultural, are turning to us for relief from intense foreign competition.

Compounding the problem of the "super" dollar, are fundamental shifts in the comparative advantage of many U.S. manufacturing firms. Now, firms in newly industrializing countries, particularly in Asia, are posing new challenges to established U.S. industries.

Turning to a separate topic, I would like to point out that the Commission's budget request includes no funds for the relocation of our activities. Our current building, as you know, will be transferred to the Smithsonian Institution when a suitable location has been found for us. Hopefully, a site can be selected this summer. When a firmer schedule has been set, the Commission will return with a request for funding for what is, in fact, a forced move. In the meantime we will be pleased to keep you informed of progress toward our relocation.

I would like to conclude by noting that few agencies are experiencing such disproportionate growth of responsibilities relative to their size. Our work increases when American industry and agriculture are feeling injured. In effect, we provide a safety net for American business when times are tough in trade, much as unemployment compensation helps tide over workers buffeted by economic vicissitudes. The current trade problems are exerting tremendous pressure on all of us, but we are very confident that, with the support of Congress, particularly your committee, the Commission can meet the challenge.

In submitting the Commission's budget request for fiscal year 1986, I firmly believe we will need every penny of it if we are to serve our objectives as defined by Congress. Mr. Arnold and I will be very pleased to answer any of your questions. Thank you.

Senator DANFORTH. Thank you, gentlemen.

Mr. Whitfield, I have viewed the USTR as being a pretty trim organization. I think there are about 140 people there, or something like that.

Mr. WHITFIELD. Yes; we have 136 workyears and with a few contractors and consultants, we are at about 166 or so people.

Senator DANFORTH. Very small operation. Very much the shock troops of trade. It would seem to me that it is an office which has a lot of work to do, as you pointed out in your testimony. As I understand it, the numbers you have given us have considered new duties relating to the harmonized tariff system, the possibility of the new general negotiating round, plus the intensified activities with respect to trade between Japan and the United States. I don't want to argue you up from the figure you have given us, but it seems to me unusual that a lean organization as is with clearly additional responsibilities is proposing a reduction of 16 percent. It is wonderful if you can do it, but is your testimony that with a 16-percent cut you can undertake these additional responsibilities?

Mr. WHITFIELD. I think with a very serious review of some of the areas where we have a little bit of flexibility—for instance, in our computer operations, which has a rather substantial percentage of our budget—and where over the last couple of years we have attempted to update and get ourselves the hardware and the software we need. We will take a very candid look at the number of people that we have on contract and on reimbursable detail from other agencies and a very serious look at perhaps several other areas that I believe that we can provide the funds to complete the mission that we feel we are mandated to do, and within the dollar figures. It will be very tough, quite frankly, and there is not an ounce of fat in the budget.

Senator DANFORTH. Yes, this is a responsible number. This is really what you would like to see authorized?

Mr. WHITFIELD. It is a figure, I think, that we will be able to live with.

Senator DANFORTH. Especially since you are going to the Labor Department.

Mr. WHITFIELD. Yes, sir. [Laughter.]

We may have a little more flexibility over there.

Senator DANFORTH. Mr. Rohr, by contrast, you are proposing a current operating level, but a 14-percent increase. Do you think that 14-percent increase is necessary to maintain existing levels at the ITC?

Mr. ROHR. Yes, I do, Mr. Chairman. As I noted in my testimony, this increase is not for any new programming at all. It is simply an increase to fund for the staffing increase that was provided by the 1984 supplemental and the fiscal year 1985 appropriation. There are no program increases there. The basis on which we estimated this budget last fall in terms of our increased caseload has already been surpassed, as I noted in my testimony. In addition to statutary casework increases, we had estimated 25 section 332 investigations for this fiscal year. We already have 19 on our plate, including the four recently requested by the Finance Committee.

Senator DANFORTH. What are you going to do with the extra money? Are you going to hire more people?

Mr. ROHR. No, we are not hiring above our current staffing level of 482. We have approximately 20 people in the selection process now, and some 10 more to go. We expect to be at that full staffing level by the end of the year, but we intend to hire no new people with this money.

Senator DANFORTH. What happens to the 14 percent?

Mr. ROHR. In addition to fully funding the 44 additional full-time permanent positions authorized by the Congress last year, this increase is necessary to cover increased compensation costs. We are hiring now at a slightly higher grade level than we have in the past in order to attract more qualified and experienced people.

Senator DANFORTH. You mean you are upgrading your personnel?

Mr. ROHR. To some extent, yes, sir.

Senator DANFORTH. I have a memo which our staff has handed me which, I guess, came from your office. It is entitled "Administrative Announcement" and it is dated April 1, 1985, and the subject is: Rat control in the ITC building. [Laughter.]

And among other things, it says: "Do not attempt to combat the rodent. As I am sure you are all aware, a trapped or threatened animal can be extremely dangerous. If you observe a rodent in your office, immediately warn anyone else in the room without undue alarm, and call 724-1234 for assistance." [Laughter.]

"You should leave the room until the rodent has been removed or observed to have departed." And so on. [Laughter.]

Is this an April Fool's memo?

Mr. ROHR. Mr. Chairman, I wish I could say it was. This is a continuing problem we have at the Commission, and not only with rats, I guess, since this memo describes a problem with rodents, primarily rats. I have had indications in my own office recently of some of these animals living there or at least passing through. We are taking some precautions. Among other measures we are trying to plug up all the holes along the foundation of the building and we have hired a professional rodent control company. I have a baseball bat in my own office now. The memo you referred to tells me not to combat the rat myself, so I will call 724-1234 and ask somebody to come and help me, should I experience an encounter.

Senator DANFORTH. Is that an American baseball bat, or is it Japanese?

Mr. ROHR. It is an American-make Louisville slugger. [Laughter.]

Senator DANFORTH. Let me ask you this: You say you think the GSA is working on relocating you. I have heard that ever since I have been here, and I think that this has gone on since well before I came to the Senate—10 years or more—that the GSA has been talking about relocating the ITC. And in the meantime, the building that you are in is deteriorating. Some members of the Finance Committee went to the ITC, I guess a year or two ago, and you hosted a little working lunch for us, and we had an opportunity to tour part of the building. And it is revolting. And the situation is that the General Services Administration has been talking about relocating you for about 10 years. During the interim period of time, almost nothing has been done to maintain your building in an ordinary fashion. The result is that water is leaking in, you are infested by rats. All you have to do is drive by the outside of the building and see that it is really falling to ruins. Do you think the GSA means it this time, or is this just their usual annual statement to the effect: Don't call us, we will call you.

Mr. **Rohr**. Mr. Chairman, we have to assume that GSA means it. The Commission staff has worked with GSA for several months to prepare an advertisement for 170,000 square feet of occupiable space in a leased building. This solicitation is expected to proceed in April and hopefully a suitable building will be found by summer. I certainly agree with you that it seems to be an annual event. We thought we had a building located last summer at 500 North Capitol Street, but the negotiations between GSA and the owners of that building for modifications to meet our needs broke down some time last fall and the building is no longer available to us. At the moment, no suitable building has been identified.

Senator **Danforth**. Maybe we should write a letter to GSA from the committee. I think it is degrading.

Mr. **Rohr**. Mr. Chairman, I think that would be most helpful.

Senator **Danforth**. Yes. I think it is degrading to you. I would think it would be demoralizing to your people, not to mention the countless people who come in to the ITC with cases.

Mr. **Rohr**. Oh, I am sure that is true. Another problem we have, of course, is the building is not large enough for our needs. Consequently, we have our staff spread around town in some other buildings. We are not all housed under one roof, be it ever so leaky.

Senator **Danforth**. Senator Bentsen?

Senator **Bentsen**. Thank you very much, Mr. Chairman. Mr. Rohr, I thought that had been resolved. I thought that the Smithsonian was now getting that building, and GSA was moving toward acquisition of the building. Isn't that correct?

Mr. **Rohr**. That is correct, sir. Senator, last fall the Congress passed legislation which transferred our building to the Smithsonian, but only after a suitable alternative location had been found for us. That is where the problem lies. No suitable building has been identified.

Senator **Bentsen**. The controversy is really that you are not satisfied with the building that they are recommending, isn't it?

Mr. **Rohr**. No, sir. We have no recommendation at all at this point.

Senator **Bentsen**. You mean that the GSA hasn't suggested a specific building?

Mr. **Rohr**. The building I referred to at 500 North Capitol Street, which we thought was going to be available, was not. It did not become unavailable because we did not want it. It became unavailable because negotiations between GSA and the owners of that building to make modifications, agreed to by GSA, to meet our requirements terminated when the owners refused to make the necessary reconfigurations. We do have some rather special requirements, for example, for a hearing room, and courtrooms for our administrative law judges, and suitable computer areas. Apparently that building could not be modified to meet those requirements. I believe there were some structural problems involved.

Senator **Bentsen**. Mr. Rohr, I am on the Environmental and Public Works Committee. I will try to look into that and see if we can't get that expedited.

Mr. **Rohr**. Senator, we would appreciate all the help we can get.

Senator **Bentsen**. I understand there was a 3-to-2 vote against adding 19 employees, by the committee. What was the argument for the additional staff?

Mr. **Rohr**. Basically, I felt the forecasted increase in the Commission's caseload required a modest staff increase. As I noted earlier, our caseload has increased significantly more the first quarter of fiscal year 1985 than estimates on which we based our original budget last fall. At that time, I felt personally a 19 professional staff increase was not at all out of line with the increased workload that we expected. That is the basis for my affirmative vote.

Senator **Bentsen**. I assume we will require more information regarding the trade deficit. Let me ask you how is the advisory service now being used? The advisory service, comprised of private industry, agriculture, and labor advisers are supposed to advise the President on trade matters. Can you supply us with whatever information the advisory group has given you for the new round of Canadian negotiations and/or for any other major trade issue this year? Would you prepare that for me and get it to me?

Mr. **Rohr**. I would be very happy to supply that, sir.

Senator **Bentsen**. All right. I am told that the trade decisions are sometimes made at the nonstatutory cabinet council on commerce and trade headed by Secretary Baldrige. I would rather have Mr. Whitfield address this, rather than a statutory trade policy group headed by Ambassador Brock. Could you provide me with a list of the agenda items for the last 2 years?

Mr. **Whitfield**. For the TPC and the CCCT? Yes, sir.

Senator **Bentsen**. If you would do that for the record, I would appreciate it. Mr. Chairman, I believe those are all the questions I have at this time.

Senator **Danforth**. Senator Baucus.

Senator **Baucus**. No questions, Mr. Chairman.

Senator **Danforth**. Gentlemen, thank you very much. There may be some other questions by other members of the committee to ask you for the record. I think there may be some for you, Mr. Rohr, particularly from Senator Heinz.

Mr. **Rohr**. All right. Thank you.

Mr. **Whitfield**. Thank you, Mr. Chairman.

Senator **Danforth**. Commissioner, thank you very much. Please proceed at your convenience.

Mr. **von Raab**. Yes, sir.

## STATEMENT OF HON. WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS, U.S. CUSTOMS SERVICE

Mr. **von Raab**. Mr. Chairman, I have a more detailed statement that I would like to submit for the record and present at this point a shorter version if that is acceptable. Mr. Chairman and members of the committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service fiscal year 1986 appropriation request of $639,102,000 and 12,531 direct average positions for salaries and expenses and $60,425,000 for operations and maintenance of the air program.

Customs also is requesting appropriations for two newly established funds. The first is for $8 million for a forfeiture fund, and for the second we are requesting $75,000 to recover anticipated reimbursements for services at small airports. In line with President Reagan's efforts to lower the cost of our Government, our fiscal year 1986 salaries and expenses appropriations request is $11,586,000 less than our requested level for 1985. We have included $14,200,000 for program initiatives, primarily for ongoing automation and communications programs and for improving the detection effectiveness of our law enforcement officers.

Our request also includes $30,609,000 for increases necessary to maintain current operating levels. Customs air program operation and maintenance appropriation request of $60,425,000 represents an increase of $16 million over 1985. The funds will be used for program enhancements, to strengthen our current and future operational capabilities. Our objective, as reflected in our 1986 budget submission, supports President Reagan's precepts of strengthened law enforcement and better management of Government resources.

In 1986 we will continue our priority program to reform commercial practices through the ongoing development and implementation of the Customs Automated Commercial System, a key program for decreasing processing times and reducing operational costs for both customs and the international trade community. We are planning to allocate an additional $6.6 million for the refinements of the hardware and software components of the system. As part of our efforts to enlist the support of private industry in this joint venture to improve the entire processing system for imported merchandise, I recently met with members of the Dallas-Fort Worth business community, and I am pleased to report that the Customs' program for implementing the automated commercial system and developing better procedures was well received by most business leaders. We look forward to working with all business groups across the country to integrate tomorrow's technology and the most up-to-date processing procedures into the Nation's cargo system. Customs' drug enforcement efforts continue to produce significant results. In 1984 the amounts of heroin and cocaine seized again set new records. Heroin seizures reached 664 pounds, up 12 percent over the previous year, while cocaine seizures were over 27,000 pounds, an increase of 40 percent above the previous year. Our efforts against drug smugglers have been only a part of our law enforcement programs. To stop the illegal transfer of high technology to Eastern Bloc countries, the Customs Service is implementing more effective detection and investigative methods at major ports throughout the country. Customs also continues to emphasize its efforts against fraudulent imports.

These efforts have produced excellent results in terms of the seizure of financial assets and prosecutions of the criminals. The past decade has seen substantial growth in pornography trafficking. Customs is aggressively investigating pornography cases, especially where large volume dealers, organized crime, or child pornography are involved. Together with other Federal, State, and local and foreign authorities, we are working to stem the flow of importations at the source countries. As a result of Customs investigative efforts, several child pornographers have been identified and arrested. In 1984, our intensified efforts resulted in over 4,000 seizures, an increase of over 120 percent.

An important part of Customs' mandate is to provide the most efficient and effective operations and management at the lowest possible cost. We are proposing to meet this objective by centralizing functions wherever feasible and introducing new ways of doing business. The initial step, to begin this year, is the centralization of virtually all administrative functions in headquarters and the regions. The functions and staff affected are strictly involved in administrative type operations, and we believe true economies are possible by centralizing these operations. To implement the centralization approach, Customs is investing some $8 million in 1985.

As for savings, current projections are for some $5 million annually. In 1986, we intend to build upon this initial major savings program by implementing organizational realignments as well. Customs' processing and enforcement programs will be redeployed around the concept of fully operational districts staffed by a full complement of inspectors, import specialists and other enforcement officers. More efficient and effective use will be made of current staffing and low productivity ports, and wherever possible, Customs will provide service on a cost reimbursable basis at these ports of entry.

In 1986, Customs is projecting a net annual savings of $8,163,000 from these management efficiencies, which will be used to support the priority programs described in our budget submission. A continuing concern of the Customs Service and the Treasury Department is the effectiveness of the air interdiction program as a deterrent against the smuggling of narcotics and contraband by private aircraft, a threat that has dramatically increased over the past several years. In 1984, the value of narcotics and dangerous drugs seized by the Customs air program was about $1 billion. We believe that the 1986 budget request for this program will provide Customs, for the first time, with sufficient resources to begin challenging the growing air drug smuggling problem. Included in our request is $5 million to develop a prototype air detection system and $4.6 million to increase the operational flights of the P-3A's. These enhancements will enable Customs to significantly deter and disrupt the flow of narcotics into the United States.

In closing we wish to reiterate that Customs' mission is extremely important and operates in a dynamic environment, significant elements of which include the traveling public, the trade community, and American business. In fulfilling our responsibilities, we must increasingly employ sophisticated operational and enforcement techniques and a wide variety of skills and disciplines. This concludes my introductory statement. I would be happy to answer your questions and those of the other members of the subcommittee.

[Mr. von Raab's prepared statement follows:]

# U.S. CUSTOMS SERVICE
## STATEMENT OF WILLIAM VON RAAB
## COMMISSIONER OF CUSTOMS
## FOR PRESENTATION BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE

Mr. Chairman and Members of the Committee, we appreciate this opportunity to appear before you today to present the U.S. Customs Service FY 1986 appropriation request of $639,102,000 and 12,531 direct average positions for "Salaries and Expenses" and $60,425,000 for "Operations and Maintenance" of the Air Program. Customs also is requesting an appropriation of $8,000,000 for the newly established Forfeiture Fund and $75,000 to recover anticipated reimbursements for services at small airports.

Customs' "Salaries and Expenses" FY 1986 appropriation request represents a net decrease of $11,586,000 from the funds requested in FY 1985, and also includes a $17,600,000 reduction due to the proposed five percent salary reduction for all Federal employees. Included in the FY 1986 S&E authorization request is $14,200,000 for program initiatives, primarily for ongoing automation and communication programs as well as for improving the detection effectiveness of our law enforcement officers; $30,609,000 for increases necessary to maintain current operating levels; and, management efficiencies and non-recurring expenses of $44,024,000.

Customs Air Program "Operations and Maintenance" appropriation request of $60,425,000 represents an increase of $16,000,000 from the funds requested in FY 1985. Included in the requested enhancements are funds to begin a full-scale research program to develop an operational 360 degree radar for use on detection aircraft; modification of C-12 aircraft; additional flight hours for the four operational P-3A aircraft; and, operation of two additional Blackhawk helicopters. The appropriation request also includes $5,000,000 for annualization of current year approved operations and non-recurring costs of $5,000,000.

## MAJOR ACCOMPLISHMENTS

The Customs Service, once the main source of federal monies, still continues today to collect significant revenues as well as to assume the responsibility for interdicting illegal attempts to bring drugs and other contraband into the country. Although the primary objective of the Tariff Act is the protection of American industry, revenue collections from its enforcement produced $12.5 billion in FY 1984, and is projected to reach $15.0 billion in FY 1986.

As usual, Customs also had a busy year processing a heavy volume of traffic and trade generated by a growing international economy. The Customs workforce cleared some 288 million persons, 6.4 million merchandise entries, up 21 percent, and more than $300 billion in cargo entering the country. In addition, about 90 million vehicles, vessels, and aircraft were processed. Projections for FY 1986 indicate continued growth and a heavy workload in the future.

Management efficiencies Customs is implementing in FY 1985, and those to be achieved in FY 1986, represent improvements in administrative, commercial and enforcement activities as well as updated approaches for achieving Customs' mission. These programs, when fully developed and implemented, will improve productivity, streamline program operations, enhance organizational and functional efficiency, and abolish duplicative activities. Many of the efficiencies result from our efforts to convert labor intensive functions to more automated processing. In total, these actions will produce savings of 887 average positions and provide substantial savings in future years.

As I stated on previous occasions, Customs will adhere to President Reagan's precepts of strengthened law enforcement and better management of government resources. Our objectives in FY 1986 are to achieve the following:

- Improved enforcement efforts to combat those illegal activities that fall within Customs' jurisdiction by the introduction of the most effective techniques;

- Increased staff productivity by developing and implementing automated systems, wherever possible, in all merchandise, revenue collection, and enforcement processing; and,

- Efficiencies in administration by centralizing functions, eliminating duplicative activities and unneeded paperwork, and simplifying processing procedures.

Customs' efforts directed toward stengthening law enforcement programs produced significant results in FY 1984. Smuggling continues as a significant national problem. We are still confronted with an illegal industry of billions of dollars and continual smuggling along all our borders.

But I do have good news to report. Through the combined efforts of Customs and the Coast Guard marihuana seizures rose by 19.4 percent, probably reflecting increased "mother" ship and air smuggling operations. Customs' heroin and cocaine interceptions have set new records. Heroin seizures in FY 1984 reached 664 pounds, up 12 percent from the previous year. The results largely reflect intensified inspections at airports, especially cargo, and the use of improved inspectional techniques.

With regard to cocaine, I must commend Customs enforcement groups for the outstanding results produced during the past four years. In FY 1982, we seized 11,150 pounds of cocaine, an increase of more than 200 percent above the previous year. In FY 1983, seizures reached 19,602 pounds, more than 400 percent above FY 1981 and 76 percent over FY 1982. In FY 1984, seizures were again significantly higher, reaching 27,525 pounds, for an increase of 40.4 percent above the previous year and a sevenfold increase above the FY 1981 amount of 3,741 pounds. In FY 1984 we disrupted organized smuggling groups by taking about $7.5 billion in cocaine sales off the streets and preventing the criminals from pocketing the profits. And, for the first quarter of FY 1985, Customs cocaine seizures are continuing at a rate of more than double the record fiscal year 1984 total.

These results, of course, largely reflect the high priority of Customs law enforcement. The nation faces two major problems at its borders. The first is massive drug smuggling, which has been with us for at least a generation and is now one of our major industries. Customs has responded by continuing its successful enforcement efforts in South Florida, along the Southwest border, and at major airports, where the major share of illegal narcotics activity is centered. In South Florida, huge sums of drug-related currency enter and leave the country daily to finance this deadly international traffic.

The second problem is critical technology illegally leaving the country. In line with President Reagan's call to stop the illegal transfer of high-technology to Eastern-bloc countries, Customs is continuing Operation EXODUS. Furthermore, we are implementing more effective detection and investigative efforts at major ports throughout the country. To achieve this goal, Customs has developed new approaches for surveillances; improved cargo inspections directed at uncovering these illegal equipment shipments; and, improved intelligence efforts related to shipments and potential violators.

While the enforcement effort is now well on its way to achieving its objectives, Customs Service goals also include facilitation, and the reduction of the costs to the public and to the Government, of the processing of international trade. Facilitation of passenger and cargo processing is a high priority. We do not believe that every passenger, vehicle, piece of baggage, or cargo shipment must be searched. Since the vast majority of Customs transactions involve law-abiding persons and firms, Customs officers are directing their primary attention to "high-risk" passengers and cargo. It is clear to me that effective enforcement and efficient facilitation can go hand-in-hand, without contradiction or without diminishing our law enforcement.

Customs also is continuing its priority program to reform commercial practices; in essence, how we implement the tariff laws and how we process the vast quantity of imported merchandise. In meeting our goals in commercial processing, we are pushing forward determinedly with "consolidation", "automation" and "streamlining" of all applicable operations.

Simplification of forms, paperwork, and procedures will reinforce automation and help to speed up the cargo clearance process. A major project consolidating our data processing functions into a single computer environment has been completed. We feel that this will eventually permit us to dramatically improve Customs processing of imports and to implement new methods of collecting duties.

At the heart of the automation effort, is the Automated Commercial System (ACS). Today, at numerous ports, we have on-line a comprehensive data base with all the functions required for processing electronically transmitted or manually prepared entries. Therefore, the system can efficiently process any and all entries prepared by all the brokers. All revenue collected by Customs is processed through ACS, as is the preparation of a daily broker statement. Also, the system is being integrated in the operations of local port authorities and major importers. The whole importing community is cooperating in its implementation. Supplementary systems for processing Fines, Penalties, and Forfeitures (FP&F) and Bonded Warehouse Inventory (BWICS) are being completed. In summary, ACS comprises ten separate stand alone modules specifically directed to each of the major activities under the commercial system. Many of these systems are already in full operation. When fully developed and implemented the system will provide improved management information, more efficient resource use, and increased responsiveness to the business community.

## FY 1986 Plans

In FY 1985, Customs is planning its expansion and development of ACS and its telecommunication system as well as developing an up-to-date TECS system, applicable for today's enforcement environment.

## Automated Commercial Systems

The $6.6 million to be spent in FY 1986 will allow Customs to continue to expedite development and implementation of the full system needed to raise productivity and continue efficient service as the workload grows. When completed, ACS will support full selectivity, determining which imports should be intensively examined and those entries with potential classification changes and increased revenue. This enhancement will pay for itself in cost savings for Customs and the importing community. In FY 1986, system development and hardware expansion for the following modules will be implemented: manifest processing, quota, account billing, fines, penalties and forfeitures, and the Customs information exchange.

## Integrated Data Telecommunications Network

Currently, Customs has two independent telecommunications systems: one supports the Treasury Enforcement Communications System (TECS) by providing essential information to support enforcement activities; and, the other supports the Commercial and Administrative Systems associated with revenue processing. Since these networks were designed and developed separately, at different times with different missions in mind, they are incompatible for many important functions. In addition, both use technology that is now obsolete. While updating both systems to incorporate the latest technology, Customs will also consolidate both networks reducing redundant costs and improving operations. Customs is planning to build upon the funding provided in FY 1985 by reallocating an additional $2.8 million to complete the project. These funds will be used for modern telecommunications equipment such as mini-computers, packet switching equipment, telecommunication circuits and earth station antennas.

## TECS II Development

The thrust of TECS II Design and Development is to build a comprehensive enforcement data base system whose underpinnings are state-of-the-art hardware, software and data base management systems. All current TECS users will contribute their expertise to the design of TECS II and will, therefore, have firsthand experience with TECS II as it evolves. This system will provide for the expansion and integration of the existing automated enforcement efforts such as Operation EXODUS, the Treasury Financial Law Enforcement System and commercial fraud, as well as other enforcement efforts. This initiative will afford Customs the flexibility to meet the numerous information requirements of today's Customs enforcement program. The $4.0 million investment will provide upgraded assistance and support to the ten enforcement agencies in and outside Treasury using the system.

## Proposed Management Efficiencies

As stated in my previous appearances before this Subcommittee, other Congressional groups, and business and industry groups, I believe an important part of my mandate as Commissioner of Customs is to bring to Customs the most efficient and effective operations and management possible at the lowest possible cost. At this time, when the entire federal budget must be closely monitored to eliminate excessive and duplicative costs, and significant budgetary reductions are required, as this Subcommittee is well aware, this goal becomes the highest priority for all agency managers. I believe Customs is no exception and must shoulder its full share of the cutbacks.

For this year and in FY 1986, I am proposing to meet this objective by expanding upon our gains in automation by centralizing functions wherever feasible and, most importantly, introducing "new ways of doing business". The initial step in the proposed series of initiatives is the centralization of virtually all administrative functions within Customs, which will be started and completed during FY 1985. What do we mean by centralization of administrative functions? Currently, the accounting, payroll, personnel, management analysis, etc., functions are spread throughout Customs; there is a large Headquarters component for each activity and related functional groups in each of the Regional offices. The functions and staff involved are not operational in nature and do not function in the ports or districts; these are strictly Headquarters administrative type operations.

Since the processing and recordkeeping of these functions are generally computer generated, our studies indicate that true economies of scale are possible by centralizing these operations. As now planned, the operations and assigned positions will be transferred to Indianapolis, Indiana, and Washington, D.C., to carry out all of Customs' administrative functions. To implement this centralization approach, Customs is investing some $8 million in FY 1985. As for savings, current projections are for some $5 million annually.

In FY 1986, we intend to build upon this initial major savings program by implementing organizational realignments, as well. Customs' processing and enforcement programs will be redeployed around the concept of fully operational districts. Customs' laboratories will operate at possibly two locations. Each district will be staffed by a full complement of inspectors, import specialists, and other enforcement agents. Entries will continue to be filed as previously, but the actual processing will be at the appropriate district office. Also, more efficient and effective use will be made of current staffing in low productivity inland ports, seaports, northern and southern border ports. Wherever possible, Customs will provide service on a cost reimbursable basis at these ports of entry.

In FY 1986, Customs is projecting a net annual savings of $8,163,000 from these management efficiencies, which will be used to support the priority programs described in our budget submission. In the out years, we are projecting annual savings of some $29 million.

## REPORT ON CUSTOMS ENFORCEMENT AND OPERATIONAL PROGRAMS

### INSPECTION AND CONTROL

Customs' Inspection and Control program processes persons and cargo, and clears carriers, for both revenue and enforcement purposes. Customs' efforts to improve enforcement of pertinent laws and regulations and expedite processing of persons and goods will continue in FY 1986. Our objective, despite resource constraints, is to achieve a balance of economical processing while still maintaining full service.

Customs will continue to meet the challenge of a growing workload while improving overall effectiveness through the expanded utilization of automated systems, selectivity systems and other innovative techniques. Increasingly selective and automated inspectional techniques will enable Customs inspectors to concentrate their efforts on the "high-risk" passengers and cargo while allowing the predominantly law-abiding transactions to receive minimal attention. We will continue to streamline cargo processing through the use of automated technology that will improve our ability to facilitate the entry of merchandise without weakening our enforcement posture. Our enforcement efforts will be enhanced through the use of fully implemented selectivity systems. Our special teams of inspectors, equipped with detector dogs and the best possible intelligence we can provide will continue to concentrate on high-risk cargo. These teams have already established significant cost-benefit ratios with noteworthy narcotics seizures from cargo and baggage. We will expand their use, increase their expertise, and improve the equipment available to them to achieve even more significant results in FY 1986.

## Passenger Processing

As in previous years, Customs processed approximately 290 million persons entering the United States, of which 31 million were air passengers. Although air passengers constitute approximately 10 percent of the total number of persons entering the country, they require a disproportionately large share of Customs resources due to the limited facilities available and the substantial crowding during processing. The problem is intensified because flight arrivals at airports are concentrated within certain time periods and the expansion of facilities to meet the growing workload is minimal.

To meet these greater demands and insure that its workload is efficiently facilitated while full enforcement is maintained, Customs has developed and implemented new higher speed processing systems tailored to accommodate the physical configuration and threat level of each airport. These processing systems allow the rapid processing of law-abiding travelers and the more efficient detection of suspected violators.

One of our major initiatives for FY 1986 will be regulatory changes to private aircraft and small boat reporting procedures. Under the proposed rulemaking, reporting requirements for private aircraft considered as a high risk will be made more stringent, and detailed justifications will be required for overflight exemptions. In addition, more stringent reporting requirements are being considered for small boats.

The enforcement aspects of passenger processing are being reinforced by the use of inspectors trained in new observational techniques, development of walk-through narcotic detection devices, passport "readers", and fiber optics inspection devices for more quickly inspecting inaccessible areas in aircrafts and other vehicles. During the 1984 Summer Olympic Games in Los Angeles some of these new techniques were available for our use in handling the special security and visitor processing responsibilities and proved very successful. In FY 1986, Customs will be spending $300,000 to acquire 57 fiber optics devices which will be deployed to critical smuggling locations.

## Cargo Processing

Customs is continuing to streamline its efforts in the cargo processing area. These efforts are aimed at facilitating the flow of legitimate cargo through our air and sea ports while focusing emphasis on suspect shipments. In order to speed the flow of merchandise, we are expanding existing cargo selectivity and enhancing our automated cargo processing systems. The most significant innovation has been the expanded and enhanced Automated Cargo Clearance and Enforcement Processing Techniques (ACCEPT) system. Rigorous system testing showed that regulatory and enforcement efforts could be improved and cargo expedited by intensively examining only selected shipments identified by automated intelligence as high risk. Customs ACCEPT is now in operation at 31 major ports, and 11 additional sites will be implemented in FY 1985. The entire processing and inspection operation is directed by a central-site computer. At the same time, a manual version of the system, previously developed for use at small to medium-sized ports, will be installed at additional locations. The enforcement aspect of ACCEPT was also strengthened by integrating it with the Customs Automated Cargo Transaction Intelligence System (CACTIS), which provides background data on each shipment.

In the future, ACCEPT is to be incorporated into the Automated Commercial System, which will control processing of cargo from its arrival at the docks or airports until release to the importer. Until that system is fully operational, expansion of ACCEPT as a stand alone system will continue at major ports.

## Contraband Enforcement Teams

Contraband Enforcement Teams (CET) are reinforcing traditional inspectional operations. These teams gather and disseminate intelligence, perform input document review, and analyze and search suspect cargo. Whenever violations are detected, the merchandise, drugs, contraband, and items in violation of currency reporting and export laws are seized. CET capabilities will be bolstered by combining their search efforts for drugs in cargo with those of the Canine Teams. As a result of improved intelligence gathering and dissemination, the CET teams in the future will be capable of more specific targeting of potential illegal activities, which we believe will result in more significant seizures.

## Tariff and Trade Program

The Tariff and Trade Program is responsible for appraisement, classification, duty assessment and collection on entries of imported merchandise, as mandated in the Tariff Act of 1930. Related and equally important functions include verification of import statistics; administering national trade policy by monitoring quotas, steel import restrictions, and various trade agreements; and enforcing merchandise admissibility for over 40 other Federal agencies and 400 related laws.

Improvements in the complete range of tariff and trade operations are continuing and an in-depth review of the merchandise processing system is underway. Our goal is to reduce the burden on the importer, especially the costs of doing business with Customs, while insuring that Customs maintains required services, even with increased merchandise imports. I am pleased to report that development projects begun in FY 1983 became operational early in FY 1984. A brief description of these innovations is included to provide you with some insight into the new business methods Customs has implemented.

## Automated Commercial System

Efforts to automate Commercial operations are continuing with the implementation of additional Automated Commercial System (ACS) Modules, including bonds, manifest processing, entry selectivity, and interest on bills. ADP equipment linking field operations to the national computer and an automated interface with importers, carriers, and other agencies will be implemented.

ACS is now processing merchandise entries, revenue collections, entry liquidations, and an increasing number of broker transactions. On the commercial side, ACS is selectively directing inspectors to merchandise requiring examination and import specialists to merchandise requiring classification or value changes. As foreign trade rises, proper inspection, examination valuation, and classification are needed to ensure that all duties are collected. In FY 1986, $6.6 million will be used to develop an integrated data base, permitting more timely and accurate management information, and increased employee productivity. Refinements to hardware and software components will be implemented and the following modules will be developed: manifest processing, quota, in-bond, fines, penalties and forfeiture, and the Customs Information Exchange.

Automated interface with broker, importer and port authority computers is a key feature of the system. Currently, a substantial percentage of the entry summaries presented to Customs are prepared on broker computers, and that number is expected to grow by 1986. Customs views this as a unique opportunity for both the trade and Customs to work together.

Selectivity criteria, which also is important for both cargo examination and import specialist review, will be maintained in a unified data base. The system, when fully operational, will be capable of identifying the types of review required by the import specialist. As is common in this type of processing, random sampling will maintain system integrity.

Tariff and Trade Program participation in Customs' overall enforcement effort includes the final operational testing of the wind tunnel narcotics detector and the expansion of import specialists' role in fraud teams, special analytical teams and assessment of penalty cases. Of particular interest, the laboratory is supporting the Fraud Program by increased sampling analyses and through the use of sophisticated technology. This has increased not only the revenue collected but also the collection of fines and forfeiture actions. In FY 1986, Customs will be purchasing and installing 10 wind tunnels (Narcotic Detection Systems) at major airports. The cost is $500,000. To provide full coverage at all airports, 200 wind tunnels would be required.

These innovations, and perhaps others, will pay increasing benefits in the future and will be the means for eliminating unnecessary paperwork, simplifying processing methods, and, best of all, making the importation of goods and payments of duties a more businesslike operation.

## Air Program

A primary concern of the Customs Service and the Treasury Department has been the effectiveness of the Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband by private aircraft, a threat that has dramatically increased over the past several years. In FY 1984, the value of narcotics and dangerous drugs seized in the Customs Air Program was about one billion dollars.

In an effort to most effectively respond to this serious problem, Customs air operations have adopted a strategy of concentrating air personnel and equipment in high-threat areas and using them in conformance with the detection, interception, and tracking methods developed specifically for the interdiction operations confronting Customs air units. Air operations use strategic and tactical intelligence for selecting optimum times and places for deploying interdiction units. Detection systems identify suspect aircraft and direct apprehension helicopters and ground support units to the precise location to capture smugglers.

In FY 1986, Customs is requesting $60,425,000 for Air Program operations and maintenance, an increase of $16.0 million over FY 1985. I believe this budget will provide Customs, for the first time, with sufficient resources to begin challenging the growing air drug smuggling problem.

The capabilities of Customs air units will be greatly enhanced in FY 1986. Each unit will include high-speed jet interceptors equipped with radar and Infrared Detection Systems, long-range tracker aircraft, high performance helicopters, and single and multi-engine support aircraft.

The program is dependent upon effective detection of smuggler aircraft. Currently, we use airborne and land-based radar to track smugglers and guide our own aircraft. The funding for FY 1986 will support a stationary radar-equipped Aerostat in the Bahamas, which will greatly expand our detection coverage. In addition, four fully equipped P-3A aircraft will be operating along the Southern border.

Customs also has enhanced its effectiveness to respond to the anticipated increase in smuggler detection. Implementation of strong centralized management of the program and establishment of east and west Regional Operations Control Centers have resulted in better control and flexibility in responding to the shifting smuggling threat. A full complement of tracker/interceptor aircraft will be acquired in FY 1985, and all will be fully operational in FY 1986. In support of these operations, Customs will increase its high-speed helicopter fleet for more effective apprehensions.

The additional $16.0 million requested for FY 1986 will enhance Customs' current and future operational capabilities. Based on a detailed study of our detection capabilities, Customs is requesting $5 million to develop a prototype air detection system centered around a 360 degree radar with a requirement for detection of up to a five meter target at a range of 100 miles. This system will certainly increase the detection capabilities of appropriate long-range aircraft. Furthermore, an additional $4,600,000 is requested for extending the operational flights of the P-3As, which will increase smuggler detection. Two other enhancements are: $5,000,000 for modification of the C-12 aircraft to be transferred from DOD; and, $1,400,000 for operation of two new Blackhawk helicopters acquired by Customs.

## Marine Program

In conjunction with the Air Program, Customs Marine Program protects the sea approaches to the nation's borders. Confronted with similar growth in its smuggling problem, the program now has 118 operational vessels, ranging in size from 15 to 60 feet, stationed at 60 locations. Also, Customs' newly developed operational approach includes ten marine modules, all of which will be operating by the end of FY 1985. These vessels are used for surveillances, waterside raids, intelligence gathering, and interdiction. Today's interdiction units confront large-scale smugglers using "motherships", stashes on off-shore islands and "air drops". Recent seizures indicate that major smuggling by vessel is still active in the Southeast and Gulf Coast and is increasing along the Pacific, Mid-Atlantic and New England coastal areas.

To counter the threat of smuggling by private and fishing vessels, the successfully tested Marine Enforcement Modules will be stationed in ten critical smuggling locations. Each module will consist of specially trained personnel and state-of-the-art marine equipment. Each team will be responsible for developing tactical information on smuggling in its local area and for interdicting marine smugglers. In addition, in order to combat smuggling at major seaports, Customs officers will develop information targeting specific persons, groups and vessels and conduct intensive vessel searches to locate concealed narcotics.

Customs established two marine enforcement modules in FY 1984 with existing resources and made maximum use of seized and forfeited vessels to equip the modules. Exchange/sales were used to obtain the high-speed interceptor boats needed. Information developed through the module contributes to a more reliable and responsive intelligence network and results in more arrests and seizures of contraband. We anticipate establishing additional marine modules. One will be located in New York and others are planned for Key West, Miami, Key Largo, West Palm Beach, Galveston, and New Orleans. Establishment of these marine modules will greatly improve our enforcement results, significantly increasing seizures and arrests.

## Investigations

The Customs Service investigates violations of Customs and related laws. Included under this broad mandate are currency, fraud, export and international enforcement. In each program targeting depends heavily upon the development and collection of intelligence. In accomplishing these investigative tasks, during the past year, several major enforcement objectives were emphasized.

## Organized Crime Drug Enforcement (OCDE)

Presidential Drug Task Forces were established in FY 1983 and are now located throughout the country. Customs participates with other Federal law enforcement agencies in these task forces. The financial investigations focus on smuggling groups responsible for the laundering of large sums of money. We believe this program is a major step in assuring the success of the President's goal of disrupting organized crime throughout the country.

During FY 1985, the task forces are expanding to include Miami, the 13th core city. Customs is requesting $2.2 million in supplementary funds to deploy 30 Special Agents and required support in Miami. Our experience indicates that this task force will produce significant results against large-scale smuggling groups operating in the area.

In FY 1986, Customs plans to continue with current commitments of resources to the Presidential Organized Crime Drug Enforcement Task Forces. These specialized investigative task forces focus on large-scale drug smuggling organizations, approach each target and simultaneously exploit the financial, internal conspiracy and interdiction/smuggling elements of each criminal organization. To date they have achieved excellent results. In FY 1984, cases involving Customs participation resulted in 727 indictments, 860 arrests; 277 convictions; $33.7 million in U.S. currency and property seizures; and, seizures of 524 pounds of cocaine and 26.4 pounds of heroin.

Fraud Program

For several years, Customs has emphasized its fraud efforts against unauthorized steel, textile, wearing apparel imports, drawback, and trademark and copyright violations. These efforts have produced excellent results in terms of financial gains and prosecutions of criminals. Also, domestic industry and jobs were protected from unfair and illegal international trade practices. In FY 1984 Operation Tripwire, which is the designation of our special emphasis against fraudulent imports, accounted for 279 arrests and indictments, and 1,705 seizures with a total value of over $62 million.

In terms of specific cases, Customs' emphasis on commercial fraud investigations has produced promising results. A typical case concerned a New York coffee broker who, after being confronted with an intensive Customs investigation, decided to settle a criminal and civil suit involving false entry of coffee from Central America. The case resulted in a $3.3 million gain for the U.S. Treasury.

As reported for the past several years, Customs is looking very carefully at all steel imports. In a recent case, this paid off in 11 indictments for overvaluation and circumventing the Trigger Price Mechanism. Our intensive inspections and investigations of fraudulent textile imports have produced 106 seizures, valued at over $9 million so far in fiscal year 1985.

Based on past accomplishments, task force operations in FY 1985 will continue to direct their efforts against illegal merchandise before it enters United States commerce and to investigate cases arising during intensified inspections. The task forces will focus on high risk importations at major ports to assure continued high quality arrests and major revenue recoveries, and to present a visible deterrent. In addition, the Fraud Investigations Center will be steadily expanded to improve data acquisition, intelligence analysis targeting and trend analysis.

A significant improvement in Customs' effectiveness will occur when the expanded capability to target violators, by correlating commercial, financial, and economic data using ADP systems within selected "high-risk" areas, is implemented. To this end, we are using integrated functional teams in high-activity areas to obtain intelligence and enforcement effectiveness.

## Financial Law Enforcement Program

Our investigative attack on criminal organizations under provisions of the Bank Secrecy Act and through their financial transactions has paid excellent dividends in terms of its impact on the largest smuggling groups operating in this country. Multi-agency investigative and prosecutorial teams, operating under the leadership of the local U.S. Attorney, are currently active in cities with large-scale currency movements and in those cities at the forefront of top-level drug trafficking and money laundering.

Our Financial Law Enforcement Center (FLEC) is the clearing house for all financial data. The Center analyzes the financial characteristics of criminal markets and assists in developing useable strategies for exploiting criminal financial business practices. Needless to say, the Center is also the source of intelligence, both domestic and foreign, developed and adapted for the investigative field units. During FY 1984 FLEC conducted analyses which identified 2,400 individuals and 700 organizational entities suspected of laundering some $2 billion.

## Operation EXODUS

Operation EXODUS combats illegal exports or equipment, computer parts, classified defense items, and lasers. In addition, and equally serious, is the illegal transfer of technical data on research, development, and manufacturing. Our job is not only to detect these shipments, but also to punish the individual violators. Ultimately, if we are to be successful, we must discourage the activities of the manufacturers, overseas intermediaries, and foreign operatives. I am pleased to report that we are receiving the strong support of American industry in this effort.

Customs' efforts in this program in FY 1985 will focus on targeting illegal exports while minimizing the impact on legitimate trade. Expanded use of specifically targeted enforcement operations concentrating on highly selective critical exports, increased foreign information, and ADP generated analytical intelligence are critical factors for improving overall effectiveness.

In FY 1984, EXODUS teams located at major ports made 1,459 seizures. Subsequently, 663 major investigations were accepted for prosecution; and Customs officers were responsible for 354 indictments, 258 arrests and 136 convictions throughout the year. In FY 1986, a wide range of enforcement initiatives will be implemented: additional covert operations; an expanded munitions control program; enhanced liaison with the intelligence community; increased foreign cooperation; and, support and assistance to foreign governments in their own conduct of covert operations directed against EXODUS violations.

## Pornography

The past decade has seen substantial growth in pornography trafficking. Customs has characterized pornography as a problem of prime concern and has stepped up the level of enforcement in this area. We are aggressively investigating pornography cases, especially where large volume dealers, organized crime, or child pornography are involved. Since pornography is smuggled into the United States chiefly through the mails, we have a vital role in curbing the importation of pornographic materials and seeking prosecution of violators of Customs and related laws. To accomplish this, Customs, together with other Federal, state, local and foreign authorities, is working to stem the flow of importation at the source countries. As a result of Customs' investigative efforts several child pornographers have been identified and arrested. In FY 1984 our intensified efforts resulted in 4,266 seizures, an increase of 122 percent above the FY 1983 total of 1,918 seizures.

## Conclusion

In closing, we wish to reiterate that our basic mission is the collection of revenue and enforcement of Customs and related laws. Our mission is important and operates in a dynamic environment, significant elements of which include the traveling public, the trade community, American business and the general public. Customs, in fulfilling its responsibilities, must increasingly employ sophisticated operational and enforcement techniques and a wide variety of skills and disciplines.

In FY 1985, Customs will continue its reform in commercial merchandise processing as well as expand on its administrative improvements. Wherever possible, selective approaches supported by automation and reduced procedural requirements will be implemented. In each case, we are attempting to speed up the processing times. As described earlier, we will be working closely with the importing community to insure that the planned operating system meets their needs as well as our own. Similarly, we will be introducing more efficient administrative support throughout Customs, particularly for operational programs. There is an ongoing review of all administrative functions in order to eliminate excessive overhead and duplicative activities.

Today, I have outlined a blueprint of recent improvements and future directions. In FY 1986, we should begin to see the results of these efforts as many of the innovations become fully operational.

This concludes my introductory statement. We are available to discuss the details of the request and answer your questions and those of the Subcommittee Members.

Senator **Danforth**. Mr. von Raab, I appreciate your interest in trying to save costs and to reduce the cost of the Customs Service. You are asking for 2 percent less money in 1986 than you get in 1985. I am wondering if this is an area where being penny-wise is also being pound-foolish.

The Customs Service provides essential services. You have mentioned them. You have the responsibility of enforcing our trade laws. You have the responsibility for interdicting narcotics, and you also produce something like—what—20 times as much revenue as is spent for the Customs Service in its operation. I think last year we collected about $12 billion in duties—the Customs Service collected that. So, my general question to you is: Is your admirably tight fisted approach to the Customs Service something which is going to cut into the muscle, or is it just cutting into the fat? Is this going to be increased operational efficiencies or will the result of it be less effective service? And what kinds of negative results, if any, could we expect to see from the very restrained request that you are putting forth?

Mr. **von Raab**. If I might, I would prefer to put it as a penny saved is a penny earned in this effort. There are a number of general program areas that would be or could be affected. In terms of our criminal enforcement programs, there are no positions being eliminated in the Customs budget nor a reduction of moneys for any of what we generally characterize as our criminal enforcement programs, which is drug interdiction, high technology interdiction, trade programs—steel, textiles—high priority trade programs. None of those operations would be adversely affected. The issue is often raised as to whether reductions or changes in the number of personnel might affect the amount of revenue that we collect. I believe that it will not, and I think that we can look forward to a review that the General Accounting Office is doing of the Customs Service in its compliance, which basically is the bottom line in terms of whether it is collecting enough revenue. And I believe that that report will show that the error rates are very low, down around 2 percent, and that the errors are on both sides. That is that, although there may be some undercollection of less than a percentage, there is also probably some overcollection. So, the result is that a change in personnel in the Customs compliance area will not affect revenues and that the oft-stated ratio between the Customs budget and the Customs revenues is not one that has a direct link.

Senator **Danforth**. As an example, in your document, a recap of your budget authority estimate, there is a table on page 1—Digest of Budget Estimates by Activities, Fiscal Year 1986—and this shows a reduction of personnel—351 under the heading Inspection and Control, 437 under the heading Tariff and Trade, 60 under Tactical Interdictions and 39 under Investigations. I am not sure what kinds of people come into which category, but it would seem to me that tactical interdiction would mean interdicting the shipments of narcotics.

Mr. **von Raab**. The Customs Service is required under the current budget format to report all of its expenses in certain categories. Those categories are sometimes misleading. The reduction of 351, for example, in inspection and control, does not mean that any inspectors in the Customs Service would be removed from the rolls. Of that 351, 145 of them are individuals that are located in various management centers that are being reduced. Although they are characterized as inspection and control, they are not the man or woman in a blue uniform that we all think of as the Customs' field officer. Of the remaining 206, 111 of these individuals are inspectors whose salaries would be covered by our proposal to have their activities reimbursed. We are not proposing to eliminate their jobs, but we are requesting that their activities be reimbursed because they are located in ports that have a low activity level. So, the only individuals in blue uniforms that are affected are the 111 that would be reimburseable.

The other inspection and control individuals involved in the management of the Customs Service and are being reduced as a result of centralizing some activities and eliminating unnecessary management pockets around the service. That is the case in tactical interdiction and investigations as well. None of those individuals—the 60 in tactical interdiction or the 39 in investigations—are field officers or, as we say, agents or patrol officers.

Senator **DANFORTH**. Senator Bentsen.

Senator **BENTSEN**. Thank you, Mr. Chairman. Commissioner, I want to save money and cut back on this budget as much as anyone, but like the chairman, I have some serious questions as to whether that is what you are actually doing in this kind of a situation. For every dollar appropriated, the Customs Service pays back to the Treasury over $21. However, now I learn that the Service is examining less than 2 percent of imports coming into an area.

It certainly seems to me to make sense—that if you examine more of those items, you will collect more revenue. It is logical to assume that you will find more imports coming through without paying the Customs' tax. I don't understand why you wouldn't want to add more personnel rather than request cuts. You are talking about cutting back some 206 inspectors, 244 import specialists, 400 or so other employees, many of them administrative. I can understand cutting back on some of the administrative employees, but when you get to the front line, you are talking about situations where fewer inspectors to me means fewer narcotics seizures. It means longer lines at the border-crossing stations: like Laredo, where you have more border crossing than at JFK.

I think fewer import specialists will mean delays in processing cargo, tying up paperwork in a place like Houston where importations run some $400 million a year. I really question that a penny saved is a penny earned, under these circumstances. I think you are losing dollars in fact. I would like to see some kind of study that shows a negative correlation between more money and more inspectors on the line. There is nothing in the administration's submission this year that suggests that any management studies have been done to determine how the Customs Service can carry out its multitude of functions. The administration has proposed but not submitted legislation to implement the crossing—the programs to make small cities pay for Customs service.

Now, there are nine of these in Texas. To assess a so-called user's fee on passengers and cargo worth in the aggregate some $0.5 billion in 1986. In three cases, along the Rio Grande, Mr. Chairman, three ports of entries scheduled to be made reimbursable ports are already closed, and so far, the Commissioner has not answered my letters asking when they will be reopened.

Today the Commissioner of Customs tells us that his service no longer wants to pay for operating the border crossing points at Amistad Dam, Falcon Dam, and Los Ebanus. They want the cities in which these border stations are located to pay for it, along with airports in Amarillo, Austin, Lubbock, seaports in Texas City, Freeport, Port Lavaca. Or they want the State of Texas to pay the operating costs.

Now, early last month when these three small border stations were shut down, Customs claimed that it was because of threats from smugglers in Mexico made against the lives of the employees. I took the Customs Service at its word last month, and I expressed my support for that kind of action, to protect the lives of those inspectors. Yet, those three ports are still closed today, while other ports that were shut down have long since been reopened. I want you to understand, Mr. Commissioner, that I am getting pretty skeptical about what your Service says.

I would also urge you to reopen the three border stations in Texas. These closings have caused great hardship for an area which has already been hard pressed from an economic standpoint. I am interested to hear out the Commissioner, Mr. Chairman, but I believe the Customs Service is now so important to the United States that we ought to commission a new study, like the Stover Report of 20 years ago, to determine what would be the optimum organization of the Customs Service for the next 20 years. And I would strongly suggest that we work to that end. Commissioner, would you respond?

Mr. VON RAAB. Surely. I believe I answered some of your statements in my answer to Chairman Danforth with respect to the reduction of inspectors, in that there are no reductions of inspectors as we know them on the border under our plan.

Senator BENTSEN. Now, are we talking about ports of entry?

Mr. VON RAAB. That is correct.

Senator BENTSEN. Whether they are seaports or airports?

Mr. VON RAAB. Yes. I tried to explain that of the individuals being reduced in inspection and control, none of them are on-line inspectors. They are part of a package that proposes that their services are provided on a reimbursable basis. The Customs Service is not proposing to eliminate the jobs of these individuals but is requesting that they be paid for through reimbursement.

Senator BENTSEN. All I can do is look at your numbers as submitted to us, and I think that is what the chairman did and they show your inspectors down 206.

Mr. VON RAAB. The other individuals are not inspectors in the field. For example, in headquarters, we have a number of individuals classified as inspectors, but they are not performing the same functions as an on-line inspector. They are assisting in the management of inspectional programs, and we believe that we can reduce their numbers. So, they are classified as inspectors, but they are not on the border wearing a blue suit doing inspections.

Senator BENTSEN. Let's not just talk about the border now. We are talking about entry——

Mr. VON RAAB. Or at seaports or at airports.

Senator BENTSEN. At all of these different places.

Mr. VON RAAB. Right. Only the 111 individuals are located at ports-of-entry.

Senator BENTSEN. So, an inspector is not an inspector.

Mr. VON RAAB. There are some individuals classified as inspector under the Government scheme that do not perform on-line inspections. If it were up to me, I would only call those individuals in uniforms who are performing the job inspectors. I, fortunately, have had little to do with the construction of the personnel system in this Government. It is a monster, and it leads to this sort of difficulty of explaining what we are actually doing, but let me assure you that of the individuals in that 206, only 111 of them are men and women in the field doing what we would conventionally think of as inspection work.

Senator BENTSEN. 111 of them are, though, is that it?

Mr. VON RAAB. But those individuals' jobs are not being eliminated. We are proposing that we be reimbursed for their services.

Senator BENTSEN. Are they in that 206?

Mr. VON RAAB. 111 of the 206. The others are not individuals that you and I would see at aiports or seaports. They would be individuals doing office work.

Senator BENTSEN. I see that my time has expired, Mr. Chairman.

Mr. VON RAAB. The General Accounting Office is preparing a report that should inform us as to whether or not the number of Customs Service employees impacts on the amount of revenue produced.

Senator BENTSEN. It is very frustrating trying to understand your budget, when you tell me, you know, that it isn't what it says it is.

Senator DANFORTH. Senator Baucus?

Senator BAUCUS. Mr. Chairman——

Mr. VON RAAB. Would you like an answer on the southwest border ports, or would you like me to skip over that?

Senator BENTSEN. I don't want you to skip over that, but we have a problem here with time.

Mr. VON RAAB. Oh, I understand.

Senator DANFORTH. Go ahead. Why don't you finish?

Mr. VON RAAB. Right. In terms of the southwest border, it is correct that we did close a number of border ports because of good, hard, credible information of attacks on our customs officers. As a matter of fact, for 2 or 3 days running last week, we were experiencing two shootings a day at or near our customs officers. We have reopened as many ports as we felt we safely could.

Senator BENTSEN. What does that mean, Commissioner? I was born and reared down there. We have had shootings ever since I can remember. [Laughter.]

Mr. VON RAAB. I don't think it is particularly amusing when our inspectors are on the other side of a gun that is going off.

Senator BENTSEN. Are they shooting at your people?

Mr. VON RAAB. Yes.

Senator BENTSEN. That is what I wanted to know. I wanted to know what you mean. I am having trouble getting you to pin it down. All right.

You have had two or three shootings. Give it to me again, at your inspectors at those ports?

**Mr. von Raab.** That is correct.

**Senator Bentsen.** In what period of time?

**Mr. von Raab.** Last week.

**Senator Bentsen.** Two or three shootings?

**Mr. von Raab.** That is right. I am not saying at these specific ports. I am saying on the southwest border.

**Senator Bentsen.** Now, these specific ones you closed?

**Mr. von Raab.** On the southwest border.

**Senator Bentsen.** That is right.

**Mr. von Raab.** Right. We have reopened those ports that we feel we can make secure for our inspectors. The ports that remain unopened are those that we cannot adequately secure and, at the same time, protect the taxpayers' dollars. For example, the ferry which is largely a tourist attraction would require us to put three or four officers at risk, since it is so far away, just to maintain a tourist attraction. We feel that it is in the interest of the Customs Service and of the American taxpayer that those officers be put into drug enforcement rather than the protection of an outpost that is really an anachronism. The type of ports that we are trying to protect are those that are serious commercial trafficking areas, and we are putting our resources into the protection of our own officers and into drug enforcement. For security reasons we have decided not to reopen these, at this point in time.

**Senator Danforth.** Senator Baucus?

**Senator Baucus.** Thank you, Mr. Chairman. Commissioner, what is this reimbursable port initiative that I hear about?

**Mr. von Raab.** All right. We would like to have the salaries and expenses of our customs' officers at certain ports that fall below a certain level of commercial or passenger traffic paid for by the State, by the local municipality, or by some other State or local authorized group.

**Senator Baucus.** Do you need legislation for that?

**Mr. von Raab.** Yes, we do.

**Senator Baucus.** Let me tell you something. I don't think you're going to get legislation. I think that you are wasting your time.

**Mr. von Raab.** We are proposing legislation to accomplish this.

**Senator Baucus.** Let me ask you some questions. First of all, is the Customs Service a Federal or State function?

**Mr. von Raab.** It is a Federal function.

**Senator Baucus.** Then why would you want to have the States pay for it?

**Mr. von Raab.** Because these particular ports we feel should be reimbursable because they are not earning the revenue that would be necessary to sustain them.

**Senator Baucus.** Should the States be allowed to keep the duties they collect?

**Mr. von Raab.** That is not an issue for the Customs Service.

**Senator Baucus.** If they are going to pay for the service, should the States be allowed to keep the duties that are collected?

**Mr. von Raab.** There are lots of Customs services right now that are reimbursed. For example, airlines reimburse the Customs Services for a lot of overtime. So, using that as an example, and just recently the Congress approved and the President signed a bill allowing for the reimbursement of service at various airports.

Senator BAUCUS. Why aren't you proposing that States pay for bigger ports—services at the bigger ports? Why are you just singling out smaller ports? Logically, it seems to me that if the principle applies to certain sizes, it should apply to all sizes.

Mr. VON RAAB. We have another package that would enlarge the user concept. It would be a separate piece of legislation. It is not reflected in our budget request.

Senator BAUCUS. So, on down the road, you are coming up with another proposal where large States would also pay the services at larger ports?

Mr. VON RAAB. Actually, the second proposal would put the cost of these services on the actual users whether they be the trading community or the passengers.

Senator BAUCUS. Should States pay for IRS service?

Mr. VON RAAB. IRS service? I don't know.

Senator BAUCUS. Should the States pay for Federal buildings?

Mr. VON RAAB. I would be happy to answer these informally, but I am not a spokesman for the administration on what States should and should not pay for.

Senator BAUCUS. But you are a spokesman for this proposal where the States would reimburse the Customs Service at certain——

Mr. VON RAAB. Yes. Or any local authority. We have had many requests from local authorities, for example bridge authorities, for exactly what we are proposing. They would like this, so this is not a proposal that we think would be adversely received by the individuals involved. We have had a lot of support for this concept.

Senator BAUCUS. Let me just tell you again: I think you are wasting your time. There are a lot of Customs stations on both borders, as well as interior ports, which are very critical to this country. And if you start trying to get States to pay for them, you are just ultimately going to close them, because lots of States are really strapped, too. Do you get much of a chance to get out of Washington, DC, and——

Mr. VON RAAB. Yes.

Senator BAUCUS. Do you visit ports along the borders, particularly northern borders?

Mr. VON RAAB. Yes.

Senator BAUCUS. Which ones in Montana have you visited?

Mr. VON RAAB. I have spent some time in the Butte area.

Senator BAUCUS. That is not on the border.

Mr. VON RAAB. I know it is not. I have not been to any of the border ports in Montana.

Senator BAUCUS. See, the thing is a lot of Montanans like to do business with Canada, particularly with Calgary which is, in many respects, more convenient than some American cities. And the purpose of your budget proposal ostensibly is to open borders and encourage growth. It seems to me that if that is your purpose, then you should do so practically as well as theoretically. I very much agree with the tone of the questions that have been asked of you. That is, it seems like your budget proposal is penny-wise and pound-foolish. I think that you should have more people, not fewer, at a lot of these stations. For example, if your employees are getting shot at, it seems to me you shouldn't run, you should keep the stations open and provide better protection. Otherwise, you are just rewarding bandits. So, I would encourage you to go the other direction and stand firm rather than retreat, as you do with the reimbursable ports proposal.

Senator **Danforth**. Senator Long?

Senator **Long**. How much money are you spending on fighting the importation of narcotics and other harmful drugs into this country?

Mr. **von Raab**. I would be happy to provide that for the record. It is difficult to extract that because, as we all know, many of our officers perform many different functions. An inspector is not only responsible for narcotics interdiction, but he is also responsible for collecting revenues. He is also responsible for ensuring that textiles are not improperly imported. So, I have typically said that somewhere—the way we set our priorities, we have approximately half, slightly less than half, of our resources could be said to be directly involved in the drug effort.

Senator **Long**. But in terms of dollars, how much would that be a year? How much would half be? I am just trying to get an education.

Mr. **von Raab**. Half would be 350.

[Note.—Subsequently, Mr. von Raab supplied the following information:]

*U.S. Customs Services—Resources Allocated for Drug Interdiction*

| Fiscal year: | |
|---|---|
| 1984 | $297,300,000 |
| 1985 | [1] 336,000,000 |
| 1986 | [2] 330,800,000 |

[1] Reflects budget authority and carryover no-year funding.

[2] Reflects Federal employee pay cut of five percent.

Senator **Long**. Now, would you say that you are winning or losing this fight against drugs—harmful drugs, narcotics?

Mr. **von Raab**. We are winning the battles now, but in terms of the war itself, it is still a very tight race.

Senator **Long**. That is not what people I have talked to in the field tell me. The attitude is that it is being lost, and that it is a rather hopeless battle the way it is going now. What percent of the drugs, do you think, is the Service interdicting coming into Florida?

Mr. **von Raab**. Those that are coming into Florida?

Senator **Long**. That is right. I am asking for drugs that you are trying to keep out of Florida. What percent of those drugs do you think you are interdicting?

Mr. **von Raab**. I would think we are probably picking up around 30 to 35 percent of the cocaine coming in, and about a little higher than that of the marijuana. And there is really not much heroin coming into Florida of which we are aware.

[Note.—Mr. von Raab subsequently provided the following information: the Customs Service is picking up around 30 percent of the cocaine and about 9 percent of the marijuana.]

Senator LONG. The estimate that I heard from a person who is very active in the field in a rather responsible position is that it would be more like about 20 percent in Florida.

Mr. VON RAAB. Then he and I would disagree.

Senator LONG. My impression is that he ought to know a lot more about it than you because he is right there on the scene doing it.

Mr. VON RAAB. I have been on the scene doing it, too.

Senator LONG. Now, what percent do you estimate that you are intercepting throughout the rest of the United States?

Mr. VON RAAB. Probably less than those percentages, as a national figure.

Senator LONG. The estimate that I have read on that would be 10 percent.

Mr. VON RAAB. No, that is wrong.

Senator LONG. How do you know?

Mr. VON RAAB. I don't know. That is an educated guess.

Senator LONG. You are just guessing?

Mr. VON RAAB. Yes, but it is an educated guess.

Senator LONG. Yes. Now, educated? I guess I would just like to find out how well educated. How do you know how much is coming in that you never see and never pick up any hint of and never come into any contact with in any respect? How do you know about that?

Mr. VON RAAB. There are groups in our Government who construct the estimated figures as to what is coming into the United States. It is done out of the Drug Enforcement Administration. Basically, what they take is world production, consumption that they expect outside of the United States. They take drug abuse statistics. They take our seizure statistics. They take all of the data that is available across the spectrum of the whole drug situation, and they bring all these data together and they come up with an estimate of how much probably came into the United States in the last year. And then, they apply other factors to that and attempt to make projections. It is very imperfect, but that is how it is done.

Senator LONG. What is your estimate of how much you are intercepting other than Florida?

Mr. VON RAAB. I said probably on a national basis somewhat lower than those figures for Florida because our effort in Florida is more highly developed than it is in other parts of the country.

Senator LONG. Now, you say you are in a better position to make a guess—you ought to be. What is your guess? My information is 10 percent. What is your educated guess?

Mr. VON RAAB. I would say that we are probably around 26 percent on cocaine and about 10 percent on marijuana.

Senator LONG. Outside Florida?

Mr. VON RAAB. No, the whole country.

Senator LONG. Outside Florida.

Mr. VON RAAB. No, no. That is including Florida. Outside Florida, I don't have that data available at this time. At some point, I am going to have to provide this for the record, because you are now asking me to remember things that may or may not be in these reference books. I would prefer to provide that for the record. I can make these general guesses with respect to the national picture, but the next thing you are going to ask me is what is coming into a particular State. Now, at that point, I am going to have to necessarily provide it for the record.

[Mr. von Raab's statistical information follows:]

# SEIZURE STATISTICS

## 1985 NATIONAL THREAT ESTIMATES

| | |
|---|---|
| HEROIN | 10,000 Pounds |
| COCAINE | 130,000 Pounds |
| MARIJUANA | 30,600,000 Pounds |
| HASHISH | 300,000 Pounds |

## 1985 MARIJUANA SEIZURES
(as of April 18, 1985)

### NATIONAL:

576,755 pounds = 2% of the national threat

### SOUTHEAST REGION:

453,543 pounds = 2.3% of the regional threat (19,798,200 lbs) (78.7% of the national marijuana total seized.

### FLORIDA:

196,227 = 1% of regional threat and .64% of national threat (34% of the national marijuana seized and 43% of regional marijuana seized)

## 1985 COCAINE SEIZURES
(as of April 18, 1985)

### NATIONAL:

10,541 pounds = 8.1% of the national threat seized

### SOUTHEAST REGION:

10,008 pounds = 9.87% of regional threat (101,400 lbs) and 7.70% of national cocaine total seized. This figure is 94.9% of the national cocaine total seized.

### FLORIDA SEIZURES:

9,321 pounds = 9.2% of the regional threat and 7.2% of the national threat. This figure is 88.4% of the national cocaine total seized and 93% of the total regional cocaine seized.

## 1985 HASHISH SEIZURES
(as of Apiril 18, 1985)

NATIONAL:

2,579 pounds = .85% of the national threat

SOUTHEAST REGION:

33.74 pounds = .09% of regional threat (36,000 lbs) and .01% of the national threat . This figure is 1.31% of the National total hashish seizures.

FLORIDA:

28 pounds = .08% of regional threat and .01% of the national threat. This figure is 1.08% of the national total hashish seized and 82.6% of the regional total hashish seized.

## 1985 HEROIN SEIZURES
(as of April 18, 1985)

NATIONAL:

120.3 pounds = 1.20% of the national threat

SOUTHEAST REGION:

15.43 pounds = 15.4% of the regional threat (100 lbs) and .15% of the national threat. This figure is 12.82% of the national total heroin seized.

FLORIDA:

All heroin seized in the Southeast Region was seized in Florida.

> U.S. Customs Threat Estimates represents a middle round figure of those provided by DEA and other agencies in the National Narcotics Intelligence Consumers Committee's National Intelligence Estimates and updated by current information. Actual amounts of narcotics entering the United States are unknown, but may vary from the estimates by as much as 30 percent.

## 1984 SEIZURES

### 1984 MARIJUANA:

**NATIONAL:**

2,926,192.2 pounds = 10% of the national threat

**SOUTHEAST REGION:**

2,303,297.4 pounds = 10.9% of the regional threat (21,144,600) and 7.5% of the national threat. This figure is 78.7% of all national marijuana seized.

**FLORIDA:**

1,925,875.5 pounds = 9.1% of the regional threat and 6.3% of the national threat seized. This figure is 65.8% of the national total marijuana seized and 83.6% of the regional total marijuana seized.

## 1984 COCAINE SEIZURES

**NATIONAL:**

33,080.5 pounds = 26% of the national threat

**SOUTHEAST REGION:**

24,901.5 pounds = 30.6% of the regional threat (81,250 LBS) and 19% of the national threat. This figure is 75% of all national cocaine seizures.

**FLORIDA:**

23,990.3 pounds = 29.53% of the regional threat (81,250 lbs) and 19.19% of the national threat. This figure is 72.5% of all national cocaine seizures and 96.34% of all regional cocaine seizures.

## 1984 HASHISH SEIZURES

**NATIONAL:** *

21,312.2 pounds = 7.1% of the national threat

**SOUTHEAST REGION:**

589.6 pounds = 1.9% of the regional threat (30,000 lbs) and .02% of the national threat. This figure represents 2.8% of the national total hashish seized.

**FLORIDA:**

528.8 pounds = 1.76% of the regional threat and .18% of the national threat. This figure represents 2.5% of the national total hashish seized and 89.7% of the regional total hashish seized.

## 1984 HEROIN SEIZURES

**NATIONAL:**

718.4 pounds = 7.9% of the national threat.

**SOUTHEAST REGION:**

9.9 pounds = 10.8% of the regional threat (91 lbs) and .01% of the national threat. This figure represents .01% of the national total heroin seized.

**FLORIDA:**

7.9 pounds = 8.7% of the regional threat and .09% of the national threat. This figure represents 1.1% of the national total heroin seized and 79.8% of the regional total heroin seized.

February 4, 1985

### United States Customs Service

### Recap of Budget Authority/Estimates

(Dollars in Thousands)

| | Proposed Level for FY 1985 | | | Proposed Level for FY 1986 | | |
|---|---|---|---|---|---|---|
| | Perm. Pos. | Avg. Pos. | Amount | Perm. Pos. | Avg. Pos. | Amount |
| Salaries and Expenses | 13,900 | 13,418 | $650,600 | 12,614 | 12,531 | 639,102 |
| Operations and Maintenance | -- | -- | 44,425 | -- | -- | 60,425 |
| Forfeiture Fund | -- | -- | 6,000 | -- | -- | 8,000 |
| User Fees at Certain Small Airports | -- | 1 | 42 | -- | 1 | 75 |

Salaries and Expenses, United States Customs Service

## ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985
(Dollars in Thousands)

| | Perm. Pos. | Avg. Pos. | Amount |
|---|---|---|---|
| 1985 Appropriation Enacted by Congress | 13,470 | 13,392 | 643,465 |
| Adjustments: | | | |
| 1) Proposed Pay Raise Supplemental | — | — | 6,246 |
| 2) Proposed Program Supplemental (OCDE) | 30 | 26 | 2,200 |
| 3) Proposed Rescission | — | — | -1,223 |
| Proposed Authorized Level for 1985 | 13,500 | 13,418 | 650,688 |
| Estimate, 1986 | 12,614 | 12,531 | 639,102 |

## DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1986

| | Appropriation FY 1984 | | Authorized Level FY 1985 | | Budget Estimate FY 1986 | | Increase or Decrease (-) for FY 1986 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Total Changes | | Program Changes | | Other Changes | |
| | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount |
| 1. Inspection and Control | 6,532 | 286,902 | 6,576 | 294,922 | 6,225 | 298,305 | -351 | 3,383 | — | 6,482 | -351 | -3,099 |
| 2. Tariff and Trade | 3,541 | 149,418 | 3,522 | 158,736 | 3,085 | 147,370 | -437 | -11,366 | — | 8,854 | -437 | -20,220 |
| 3. Tactical Interdiction | 1,844 | 75,754 | 1,866 | 100,340 | 1,806 | 101,547 | - 60 | 1,207 | — | 1,887 | -60 | -680 |
| 4. Investigations | 1,402 | 83,888 | 1,454 | 96,690 | 1,415 | 91,880 | - 39 | - 4,810 | — | 2,206 | -39 | -7,016 |
| Unobligated Balance | | 3,439 | | | | | | | | | | |
| Total appropriation, and authorized level, and budget estimate | 13,319 | 599,401 | 13,418 | 650,688 | 12,531 | 639,102 | -887 | -11,586 | — | 19,429 | -887 | -31,015 |
| Permanent positions established | 13,370 | | 13,500 | | 12,614 | | -886 | | — | | -886 | |

1. Unobligated balance includes $3,385,000 in no-year funding.

Salaries and Expenses, United States Customs Service

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1986
(Dollars in Thousands)

| | Inspection and Control | | | Tariff and Trade | | | Tactical Interdiction | | | Investigations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. |
| Program Changes: | | | | | | | | | | | | | | | |
| A. Implementation of Management Savings | — | — | 2,762 | — | — | 1,054 | — | — | 787 | — | — | 626 | — | — | 5,229 |
| B. Management Initiatives: | | | | | | | | | | | | | | | |
| 1. Fiber Optics | — | — | 300 | — | — | — | — | — | — | — | — | — | — | — | 300 |
| 2. Integrated Data Telecommunications Network | — | — | 700 | — | — | 700 | — | — | 700 | — | — | 700 | — | — | 2,800 |
| 3. Automated Commercial System | — | — | — | — | — | 6,600 | — | — | — | — | — | — | — | — | 6,600 |
| 4. Treasury Enforcement Communications System II | — | — | 2,720 | — | — | — | — | — | 400 | — | — | 880 | — | — | 4,000 |
| 5. Wind Tunnel | — | — | — | — | — | 500 | — | — | — | — | — | — | — | — | 500 |
| Total, Program Changes | — | — | 6,482 | — | — | 8,854 | — | — | 1,887 | — | — | 2,206 | — | — | 19,429 |

Salaries and Expenses, United States Customs Service

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1986
(Dollars in Thousands)

| | Inspection and Control | | | Tariff and Trade | | | Tactical Interdiction | | | Investigations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. |
| Other Changes: | | | | | | | | | | | | | | | |
| A. Increases necessary to maintain current levels: | | | | | | | | | | | | | | | |
| 1. Net cost of within grade salary increases | — | — | 1,613 | — | — | 806 | — | — | 452 | — | — | 354 | — | — | 3,225 |
| 2. Grade-to-grade promotions | — | — | 327 | — | — | 163 | — | — | 91 | — | — | 72 | — | — | 653 |
| 3. Payment to Employee Compensation Fund | — | — | 294 | — | — | 147 | — | — | 82 | — | — | 65 | — | — | 588 |
| 4. Payment to Unemployment Compensation Fund | — | — | 193 | — | — | 97 | — | — | 54 | — | — | 43 | — | — | 387 |
| 5. Increased costs of employee benefits | — | — | 761 | — | — | 380 | — | — | 213 | — | — | 167 | — | — | 1,521 |
| 6. Payment to Social Security Trust Fund | — | — | 334 | — | — | 167 | — | — | 94 | — | — | 73 | — | — | 668 |
| 7. Increased pay cost | | | | | | | | | | | | | | | |
| a. FY 1984 pay increase | | | 1,079 | | | 540 | | | 302 | | | 237 | | | 2,158 |
| b. FY 1985 pay increase | | | 4,699 | | | 2,379 | | | 1,470 | | | 1,106 | | | 9,654 |
| 8. Travel and transportation cost | | | 550 | — | — | 274 | — | — | 154 | — | — | 121 | — | — | 1,099 |
| 9. Permanent change of station moves | — | — | 485 | — | — | 242 | — | — | 136 | — | — | 106 | — | — | 969 |
| 10. Payment to GSA | | | 2,882 | | | 44 | | | 25 | | | 20 | | | 2,971 |
| 11. Chargeback to FLETC for student services | — | — | 50 | — | — | 25 | — | — | 14 | — | — | 11 | — | — | 100 |
| 12. Cost of FTS and other communications | — | — | 1,359 | — | — | 680 | — | — | 381 | — | — | 290 | — | — | 2,710 |
| 13. Equipment leasing and maintenance costs | — | — | 693 | — | — | 346 | — | — | 194 | — | — | 152 | — | — | 1,385 |
| 14. Extra holiday (Martin Luther King) | — | — | 163 | — | — | 82 | — | — | 46 | — | — | 36 | — | — | 327 |
| 15. Printing costs | — | — | 71 | — | — | 35 | — | — | 20 | — | — | 15 | — | — | 141 |
| 16. Costs of outside contracts | — | — | 386 | — | — | 193 | — | — | 108 | — | — | 85 | — | — | 772 |
| 17. Reimbursement of services of other Government agencies | — | — | 252 | — | — | 126 | — | — | 71 | — | — | 55 | — | — | 504 |
| 18. Cost of supplies | — | — | 251 | — | — | 126 | — | — | 71 | — | — | 55 | — | — | 503 |
| 19. Equipment procurement | — | — | 133 | — | — | 67 | — | — | 37 | — | — | 29 | — | — | 266 |
| Subtotal, Maintaining Current Levels | — | — | 16,575 | — | — | 6,919 | — | — | 4,015 | — | — | 3,100 | — | — | 30,609 |

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1986
(Dollars in Thousands)

| | Inspection and Control | | | Tariff and Trade | | | Tactical Interdiction | | | Investigations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. | Pos. | Ave. Pos. | Amt. |
| B. Reductions, Nonrecurring Costs, and Savings: | | | | | | | | | | | | | | | |
| 1. Reductions: | | | | | | | | | | | | | | | |
| a. Pay Reduction (5%) | — | — | -8,596 | — | — | -4,424 | — | — | -2,569 | — | — | -2,011 | — | — | -17,600 |
| 2. Nonrecurring Costs: | | | | | | | | | | | | | | | |
| a. Radio Voice Privacy | — | — | — | — | — | — | — | — | — | — | — | -5,409 | — | — | -5,409 |
| b. Automated Commercial System | — | — | — | — | — | -6,600 | — | — | — | — | — | — | — | — | -6,600 |
| c. Integrated Data Telecommunications Network | — | — | -469 | — | — | -469 | — | — | -469 | — | — | -468 | — | — | -1,875 |
| d. Organized Crime Drug Enforcement (OCDE) | — | — | — | — | — | | — | — | — | — | — | -1,100 | — | — | -1,100 |
| 3. Management Savings: | | | | | | | | | | | | | | | |
| a. Managerial Efficiencies | — | — | — | -146 | -146 | -5,610 | — | — | — | — | — | — | -146 | -146 | -5,610 |
| b. Organizational Consolidation and Realignment | -94 | -95 | -3,614 | -211 | -211 | -8,434 | -25 | -25 | -960 | -19 | -19 | -730 | -349 | -350 | -13,738 |
| c. Centralized Administrative Services | -145 | -145 | -2,890 | -80 | -80 | -1,994 | -35 | -35 | -697 | -20 | -20 | -398 | -280 | -280 | -5,579 |
| d. Operational Efficiencies Derived from Reimbursable Ports | -111 | -111 | -4,105 | — | — | — | — | — | — | — | — | — | -111 | -111 | -4,105 |
| Subtotal, Reductions, Nonrecurring Costs, and Savings | -350 | -351 | -19,674 | -437 | -437 | -27,139 | -60 | -60 | -4,695 | -39 | -39 | -10,116 | -886 | -887 | -61,624 |
| Total, Other Changes | -350 | -351 | -3,099 | -437 | -437 | -20,220 | -60 | -60 | -600 | -39 | -39 | -7,016 | -886 | -887 | -31,015 |
| Total, Increases or Decreases in FY 1986 Compared with Proposed FY 1985 Authorized Level | -350 | -351 | 3,383 | -437 | -437 | -11,366 | -60 | -60 | 1,207 | -39 | -39 | -4,810 | -886 | -887 | -11,586 |

## SUMMARY JUSTIFICATION OF FY 1985 BUDGET ESTIMATES

### General Statement

The United States Customs Service is the primary border enforcement agency and a major revenue producer. Customs administers and enforces the Tariff Act of 1930 and some 400 other provisions of laws and regulations of 40 other Federal agencies governing international traffic and trade. The mission is multi-faceted and mandates the Service to:

- Control, regulate and facilitate the movement of carriers, persons and commodities between the United States and other nations.
- Protect the American consumer and the environment against the introduction of hazardous and noxious products; and protect American industry and the American worker against unfair competition from foreign manufacturers.
- Assess, collect and protect the revenue accruing to the United States from duties, taxes and fees incident to international traffic and trade.
- Detect, interdict and/or investigate:
  - Smuggling and other illegal practices designed to gain illicit entry into the United States of prohibited articles, narcotics, drugs and other contraband.
  - Fraudulent activities calculated to avoid the payment of taxes and fees, or to evade the legal requirements of international traffic and trade.
  - Illegal transfers of critical technology to foreign nations for the building of their military system, thus posing a threat to our national security.
  - Illegal international trafficking in arms, munitions and currency.

In FY 1986, requested salaries and expenses appropriations are $639,102,000, a decrease of $11,586,000 from the authorized level of FY 1985. Included in FY 1986 are $30,609,000 for increases necessary to maintain current levels and non-recurring costs of $14,984,000. Included are various program reductions and management initiative savings relating to personnel and administrative staffing, procurement, printing, and publications and audio visuals.

Initiatives of $6.6 million will continue the development of the Automated Commercial System (ACS), a computerized approach for expediting the processing of merchandise, while still enforcing all applicable regulations; $2.8 million for an Integrated Data Telecommunications Network; and $4.0 million for upgrading the Treasury Enforcement Communications System (TECS) to be used by Customs enforcement officers. These management initiatives are vital for Customs selectivity approach in both commercial and enforcement processing and for insuring improved effectiveness of Customs enforcement.

Consistent with Administration objectives and the necessity to reduce the costs of government, the Customs Service is planning to implement major management and operational efficiencies beginning in FY 1985 and continuing through FY 1986. In meeting the objectives of increased efficiency and productivity, Customs carefully reviewed its administrative, managerial, and operational activities with the goal of establishing a streamlined organization and reducing costs, while maintaining service and enforcement. To this end, our plans involve the consolidation, centralization and elimination of duplicative, inefficient functions and underutilized Customs operations. The program capitalizes on the more effective use of automation, economies of scale, and reduced duplication in processing and management. Specifically, the proposed program will centralize administrative functions, consolidate Administrative offices, as well as their functions, streamline Customs laboratory system, and increase the efficiency of Customs port administration.

While we estimate that substantial savings will accrue in FY 1986 and in future years, an initial one-time investment is required in order to implement the program. During FY 1985, when the centralization of administrative functions occurs, there will be initial costs of $8.1 million for relocation, separation, and for temporary dual operations. However, in FY 1986, the savings from these proposed actions outweigh the costs. Beyond FY 1986, the program will continue to provide significant savings gained from the increased productivity, streamlined operations, and the elimination of duplicative organizations and functions. The gross savings in FY 1986 total $29,040,000 and 887 average positions and are reflected in this submission. These management actions will not impact on Customs law enforcement, facilitation, or processing effectiveness.

In FY 1986, Customs will continue to build on earlier accomplishments by increasing the use of automated approaches in enforcement. During this past year, Customs has continued its highly successful enforcement operations. We are continuing the effort to disrupt Florida based narcotics smuggling organizations. A coordinated interdiction effort, encompassing all Federal and local agencies, is operating at our border. The National Narcotics Border Interdiction System (NNBIS) has contributed to the results achieved against drug smuggling. In FY 1984, Customs seizures were up 7.0 percent for heroin, 40.3 percent for cocaine, and 19.4 percent for marihuana. Further support was also gained from Special Operations directed at specific smuggling modes and at critical border locations. Significant progress also has been achieved in expanding automated systems for merchandise processing, revenue collections and enforcement. For each of these programs, Customs intends to continue and enhance its operations. Further details on these priority activities, as well as a full description of all major programs and selected workload data, are provided in the following sections.

## 1. Inspection and Control

The mission of Inspection and Control is the effective enforcement of Customs laws and regulations and other agency requirements for carriers, cargo and persons entering and departing the United States at ports of entry. This includes the collection of duties, enforcement of quotas and marketing agreements, detection and interception of contraband, merchandise and drugs, and insuring that importations meet all necessary requirements for legal entry into the United States. Customs goal is to carry out this mission efficiently, without burdening the public by imposing excessive regulatory requirements, processing times and inordinate costs.

Continuation of its enforcement effectiveness when confronted with increasing workload and increasing costs is still a major difficulty of Customs inspectional program. A major change in the inspectional area has been the shift to improved enforcement through intensive selective inspections which have been made possible by the introduction of computer assisted processing and reduced paperwork. The results have been improved enforcement, more efficient use of resources and better facilitation for passengers and cargo. Automated systems continue to be established both to decrease the paperwork burden for the inspector and, to provide the information needed for effective selectivity. In addition, Contraband Enforcement Teams (CET) are achieving excellent results, using similar approaches, for inspecting the enormous amount of cargo arriving at ports nationwide.

Expanded utilization of automated systems, selectivity and innovative techniques have cutback on traditional labor intensive processes, improving overall effectiveness while handling increased workloads. Enhancements for facilitating and for effectively enforcing the law are: Red/Green type processing; One-Stop; Vessel Passenger Clearance System (VPACS); Automated Cargo Clearance and

Enforcement Processing Technique (ACCEPT); an automated manifest clearance; On-Line In-Bond Processing; and new x-ray devices. Increased enforcement effectiveness also has resulted from concentrating resources in priority areas and the implementation of special enforcement teams.

Enforcement and facilitation are viewed as highly compatible program objectives, and Customs will continue to balance the expeditious processing of people and goods with strict enforcement of laws against fraud and smuggling. Most people serviced by Customs are law-abiding. Customs inspectors will continue to focus their efforts on the "high-risk" passengers and cargo while allowing the predominantly law-abiding travelers and goods to receive minimal attention. Increasingly selective and automated inspectional techniques have and will continue to take Customs closer to those goals. In Fiscal Year 1986, further progress will be toward effective, economical passenger and cargo facilitation as well as in combatting fraud, drug trafficking and smuggling.

FY 1985 Strategies:

During this fiscal year, the Inspectional Program has placed particular emphasis on improving enforcement techniques at the nation's borders as well as selectivity systems at major airports. Inspectional staff at certain land border stations have received training in the Border Processing Improvement Plan (BPIP), and the Private Aircraft Reporting System (PARS) has been revitalized. To coordinate and support inspectional enforcement efforts, Operational Analysis Units (OAU's) have been established in several regions. Operational enforcement analysts are identifying individuals and transactions which pose the highest risks. These high risk areas then receive greater attention. Selectivity also is enhanced by the cooperative efforts with foreign Customs services which provide pre-arrival information on passengers from high risk countries. Customs' joint initiatives with international air and ocean carriers and with sister customs agencies are designed to increase productivity in both enforcement and facilitation. Among Customs' primary goals is obtaining advance data about inbound persons, carriers and shipments so that inspectors can prepare to examine high-risk arrivals while low-risk traffic passes quickly.

Other enforcement and selectivity efforts include: increased emphasis on high-risk private aircraft and small vessels; new mode seaport operations in various ports; RED/GREEN passenger inspection systems at several major airports; the increased use of roving inspectors, citizen by-pass and one-stop selectivity at many large airports; vastly improved canine enforcement; the standardization of commercial fraud initiatives; the initiation of the audit inspection system and reduced supervision at duty free stores and foreign trade zones; and the testing of new examination/enforcement systems for cargo control.

During FY 1984, Customs expanded ACCEPT to a total of 31 ports. ACCEPT will be incorporated into the multi-functional Automated Commercial System (ACS) in FY 1985. The expansion of ACCEPT will continue during FY 1985 at 11 more ports nationwide. During FY 1985, Customs will successfully implement a revised on-line automated in-bond system as a module of ACS. Formerly, the in-bond system was a separate automated system. Enhancements will be directed towards gathering intelligence criteria for risk identification.

In addition, a number of other initiatives are being pursued to streamline further the entire cargo processing system. These include the implementation of successful initiatives developed at several selected major ports. Our current approach aims at institutionalizing, at the line inspector level, the concept of selectivity by freeing up and concentrating inspectional resources for more flexible functional operations. Analytical teams, composed of inspectors and supported by auditors, have demonstrated that a post-audit program can be extremely effective. As appropriate, applicable forms of this approach will be implemented at high volume ports.

FY 1986 Strategies:

In keeping with Customs twin objectives, high speed passenger and cargo processing and maximum interdiction of drug traffickers and smugglers, the Inspectional Program will further expand the use of Automated Cargo Clearance and Enforcement Processing Techniques (ACCEPT), the automated in-bond system, One-Stop, and the Automated Commercial System (ACS). The increasing infusion into the U.S. of illegal drugs -- especially cocaine -- and fraudulent imports makes it imperative for Customs to expedite the release of "low-risk" travelers and cargo so that highly suspicious travelers and merchandise can undergo intensive examination. Along these lines, efforts will be directed toward better intelligence gathering for accurate identification.

At several major ports, inspectors have been testing numerous methods for achieving effective selectivity and post-audit programs. Results clearly indicate the success of those tests, and Customs will become increasingly reliant on the team approach. Such methods are crucial to comprehensive law enforcement, especially in this era of increasing commerce, travel and smuggling.

During the last two fiscal years, Customs has vastly improved passenger processing. This trend will continue, especially since all inspectors at the nation's largest airports have been trained in observational profile techniques and stress analysis. The extremely successful Red/Green self-selection mode encourages the rapid processing of law-abiding travelers, and the Customs declaration form has also been revised to shorten preparation and primary screening time.

Because of these and other innovations in passenger facilitation, Customs anticipates speedier processing, even as the workload grows. Also, with so many approaches to selectivity and passenger processing tested and proven effective, Customs will be able to better handle varying facility configurations, flight volumes and smuggling threats. In addition, the Treasury Enforcement Communication System (TECS) will be upgraded ($4.0 Million) to expand its capabilities and terminal network. Under the design plan, a more comprehensive enforcement data base with improved management systems, and state-of-the-art hardware will be developed.

The Border Processing Improvement Plan (BPIP) has resulted in improved land border processing. Among the tools used to expedite processing and enhance enforcement effectiveness at those ports of entry are: land border profiles, detector dogs, selectivity, roving inspectors, and pedestrian observations. These techniques have been fully tested and in FY 1986, all border inspectors will receive training in these proven methods.

Over the long term, Customs seeks maximum inspectional enforcement results via appropriate combinations of processing and interdictory techniques. Innovations will be explored, and methods like the inspector-observer, walk-through narcotics detector and automated passport reader will increase inspectors' ability to process travelers quickly and detect violators just as efficiently.

Passenger Processing:

Passenger Processing goals for Fiscal Year 1986 will build upon the initiatives begun in Fiscal Years 1984 and 1985. Among the major initiatives will be regulatory changes to private aircraft and small boat reporting procedures. Under the proposed rulemaking, private aircraft considered as a relatively high-risk category will undergo stringent reporting and inspection changes, and more detailed justifications will be required for aircraft operators to be considered for overflight exemptions (bypassing one of Customs designated airports at our southern border). More stringent reporting requirements are also being reviewed for small boats.

Also in FY 1986, the initiatives with air carriers begun in FY 1984 will continue to be emphasized so that passengers are processed in more secure facilities, thereby taking advantage of the efforts and information of carriers at overseas locations. This will enable Customs to better control the passenger processing environment and therefore facilitate the continued identification of internal conspiracies. Automatic passport readers will continue to be studied so that the leading edge of technology will be available as more and more nations begin to issue machine readable passports. These readers will automatically query TECS data bases thus allowing our inspectors more time to conduct better interviews for the selection of high risk travellers for additional processing. The use of walk-through vapor detectors keying on certain narcotics will be expanded from its initial implementation, allowing the screening of large numbers of arriving passengers quickly and efficently. In FY 1986, $500,000 will be used to deploy the detectors at major airports. An additional $300,000 will be allocated to acquire fiber scopes for inspecting vehicles, gas tanks, tires, aircraft, container walls, vessel compartments, and other currently inaccessible locations in less time, but more thoroughly, and with less inconvenience to the travelling public and business community. All of these techniques will allow the average traveller faster processing while quickly identifying persons with whom Customs is interested in pursuing a more intensive inspection.

### Cargo Processing:

Customs is continuing to streamline its efforts in the cargo processing area. These efforts are aimed at facilitating the flow of legitimate cargo through our air and sea ports while focusing emphasis on suspect shipments. As the volume of trade increases, certain criterion must be maintained to assist inspectional personnel in a quick, yet effective determination of a threat. Customs inspectors are selecting cargo shipments for intensive examination based on the country of origin, the commodity, and the importers of record. This approach has been enhanced by the Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT) which will be incorporated into the Automated Cargo Selectivity System. The revision of the basic entry document, CF 3461A, as well as the development and implementation of the Optical Character Reader (OCR) technology will all contribute to our ability to facilitate entry of merchandise without degrading our enforcement posture. Customs is also working to obtain the assistance of sea carriers in reducing the illegal use of vessels in narcotics smuggling. This approach is similar to the initiatives with commercial air carriers whose routes originate or transit high-risk source countries.

In the in-bond area, Customs has implemented a new automated in-bond system as an integral part of ACS. A number of initiatves are underway concerning the movement of goods in-bond. The No-Further Inspection program in which an entry may be filed at one port for merchandise arriving in another port, with the direct exchange of in-bond data between the automated systems of in-bond carriers and ACS, has been introduced. Also, Customs is developing automated manifest systems for both sea and air cargo. These systems will speed the notification of the release of merchandise to the importing carriers and eliminate manual reconciliation of inventory records.

In all cargo matters Customs is striving to achieve the greatest possible degree of compatibility between its automated systems and those in the trade community. Customs is continuing to introduce new procedures which reduce costly and time consuming paperwork, consolidate its resources, and maintain and enhance its enforcement capabilities.

Contraband Enforcement Teams (CET):

While the strategy of using CET to conduct more intensive examinations of high risk passengers and cargo has been successful, future efforts will focus on more specific targeting and larger, more significant seizures. This will be accomplished through the use of Operational Analyses and threat assessments, pre-arrival manifest information, more thorough container and aircraft searches, air and vessel carrier agreements, and international cooperation. This approach is intended to counter the speed with which smugglers operate, and concentrate on the larger quantities of narcotics to be found in containerized cargo and both commercial and private aircraft.

Canine Enforcement Program:

Customs Canine Enforcement Program is integrated in the overall Customs enforcement strategy in two areas: drug detection and international cooperation. Canine Enforcement Program resources are primarily aimed at interdicting narcotics; however, its training center assists foreign governments in developing similar programs which contribute not only to international cooperation, but also to significant seizures of drugs destined for the United States. While the objective of the program is narcotics interdiction, the program provides benefits (interagency/international cooperation, public education and deterrence) which also contribute to the Federal goal of interdicting narcotics at our borders.

Customs efforts to balance the expeditious processing of people and goods with effective enforcement of the laws against fraud and smuggling will continue in FY 1986. Efforts will be implemented to achieve this balance economically and effectively, at minimum cost to both government and industry. Having fully implemented selectivity -- by concentrating on the minority of wrongdoers while facilitating the law-abiding majority -- Customs expects significant results in FY 1986.

The following table presents major workload factors related to the Inspection and Control activity.

Salaries and Expenses, United States Customs Service

| | Fiscal Years (In Thousands) | | | | |
|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985* | 1986* |
| **Carriers** | | | | | |
| Ground vehicles. | 90,704 | 88,907 | 89,066 | - | - |
| Vessels.......... | 236 | 238 | 226 | - | - |
| Aircraft......... | 560 | 537 | 475 | - | - |
| Total......... | 91,500 | 89,682 | 89,767 | 91,657 | 93,490 |
| Persons Arriving | | | | | |
| Land............. | 266,448 | 251,903 | 753,284 | - | - |
| Vessel........... | 3,787 | 3,402 | 3,348 | - | - |
| Air.............. | 29,790 | 28,509 | 31,168 | - | - |
| Total......... | 300,025 | 283,814 | 287,800 | 293,556 | 299,427 |
| Processing Cargo | | | | | |
| Formal entries.. | 4,753 | 5,314 | 6,421 | 6,742 | 7,079 |

* Projected Workload.

## 2. Tariff and Trade

The mission of the Tariff and Trade program arises from the Tariff Act of 1930, which requires that Customs carry out appraisement, classification and collection of duties from imported merchandise. While carrying out the complex task of processing international trade transactions for revenue and compliance with a multitude of laws and regulations, policies and procedures are developed to: insure uniformity and accuracy in the classification and valuation of merchandise; enforce laws and regulations that neutralize or eliminate trade practices harmful to the country; foster growth in international trade that is directly linked to U.S. trade policy for the Department of Treasury as well as the laws and regulations of over 40 other Federal agencies; and enforce international codes and agreements that provide for uniformity of trade procedures.

The major issue in Tariff and Trade continues to be how to facilitate cargo and entry processing and still maintain high compliance levels while dealing with an increasingly complex workload. Customs strategy is to increase productivity and improve selectivity approaches through increased automation, use of electronic devices, and enhanced training. Workload in the commercial processing area will continue to increase through FY 1986. The FY 1984 number of entries processed, and the value thereof, increased by 20 percent and 28 percent, respectively, from 1983. In addition, the fines, penalties and forfeitures caseloads are expected to increase due to an enhanced enforcement posture in Customs. Furthermore, the Tariff and Trade program's major goals are to complete the implementation of the Automated Commercial System (ACS) and to increase this program's involvement in the detection, deterrence, and prosecution of commercial fraud.

To achieve these goals and to deal effectively with this increasing workload, Tariff and Trade will streamline operations. The implementation of the Automated Commercial System, and the increase in bypass levels achieved through selectivity programs will free import specialists from routine entry review for greater participation in fraud enforcement.

Continued refinement and implementation of the selectivity approach directs Customs efforts to those high risk entries with a potential enforcement and revenue threat as well as those with a high potential payoff. The remaining entries and transactions are processed with minimal delay. Post-audit techniques will be instituted for manifest clearance, warehouse control, Foreign Trade Zone operations, drawback and to assure compliance with regulations. Customs Quality Assurance

Program insures the quality of classification and value performed under the Selective Entry Processing System. By automating the appraisement system, the large volume of entry paperwork can now be more cost-effectively and efficiently processed. The Automated Commercial System (ACS), which integrates existing commercial systems under a comprehensive data bank, will implement a combined merchandise processing system, thus eliminating duplication while assuring full management information. As part of the system, the Automated Broker Interface (ABI) not only reduces paperwork, but also decreases the costs of Customs and the importers. The revision/elimination of certain forms and regulations will reduce overhead costs for both Customs and the business community, and replacement of the current Tariff Schedules of the United States with the International Harmonized System of tariff of classification will facilitate international trade.

Currently, Customs is coping with increased entry workloads by increased selectivity supported by automated processing. The automated system is designed to select entries for intensive examination by import specialists. The system improves uniformity of processing by increasing communications between inspectors and import specialists, as well as between Customs offices in different sections of the country. The selectivity system has reduced the need for examinations, but more discrepancies have been detected, producing a more efficient use of personnel.

FY 1985 Strategies:

In FY 1985, the Tariff and Trade Program will build on previous accomplishments and goals. Efforts to automate commercial operations will continue with the completion of Phase II of ACS in 1985 which will include bond and merchandise processing, entry selectivity, and billing. Equipment for linking field operations to the national computer and an automated interface with importers, carriers, and other agencies will be implemented. As part of Tariff and Trade Program participation in Customs overall enforcement effort, the final operational testing of the wind tunnel narcotics detector will be completed and import specialists will expand their role in fraud teams, special analytical teams and in assessment of penalty cases. Of particular interest, the laboratory is supporting the Fraud Program by increased sampling analyses and through the use of sophisticated technology, which has increased not only the revenue collected but also the collection of fines and increased forfeiture actions.

## Automated Commercial System (ACS):

The Automated Commercial System (ACS) is now processing merchandise entries, revenue collections, entry liquidations, and an increasing number of broker transactions. ACS has been operational since February 1984. In order to fully execute the commercial side of Customs mission, ACS will be emphasizing selectivity to more quickly and accurately determine which importations should be intensively examined by the inspectors and which are most likely to require classification or value changes by the import specialists. With the level of foreign trade rising dramatically, proper inspection, examination, valuation, and classification are needed to ensure that Customs is collecting all duties required by law. Additional funding in FY 1986 ($6.6 million) will be used to develop an integrated data base for all commercial information, which will permit more timely and accurate management information, and increased employee productivity. Refinements to hardware and software components will be implemented and the following modules will be developed: manifest processing, Quota, In-bond, Fines, Penalties and Forfeiture, and the Customs Information Exchange.

## Automated Broker Interface (ABI):

As an integrated part of the Automated Commercial System (ACS), the implementation of the Automated Broker Interface (ABI), as well as an integrated data base, will eliminate the keying of redundant data, which is a major step in reducing manual paperwork. Since current procedures require extensive back-up documentation for each entry in order to determine proper classification, the elimination of this requirement for all but the entries selected for intensive review will reduce the amount of paperwork both for Customs and importers and speed up processing. It will not only reduce the volume of paper, but also Customs processing directly with the importing community. At this time, about 60 percent of the entry summaries presented to Customs are prepared on computers. The number is projected to grow to 80 percent by 1986. Under these circumstances, we have a unique opportunity for both the trade community and Customs to improve their respective processing by applying this available data processing capability to electronically interchange data entry. The approach has been successfully pilot tested. ABI is now operational with an expanding number of brokers. Ultimately, this system will save manual filing of millions of documents, while assisting in error correction prior to Customs processing and reducing costly rehandling of transactions by both Customs and the trade community.

Continued expansion of ABI will support streamlined approaches to automated entry processing, cargo examination, entry selectivity, merchandise release, duty collection and liquidation, and quota processing. ABI also will expedite the development of a "paperless entry" with post audit for entry review.

Other Improvements

In conjunction with new methodologies for processing the increase in workload, Customs intends to improve the quality of classification and value. To this end a Quality Assurance Program has been implemented for monitoring the quality of entry processing and for capturing regional and national statistical information. The program evaluates the quality of randomly selected entries processed through the Selective Entry Processing System, as well as those processed directly by the import specialists. Customs is monitoring and evaluating the integrity of new programs in order to protect the revenue, detect fraudulent practices and enforce compliance with Customs and other related laws.

Supporting these efforts are improved cash management and debt collection procedures. Customs is exploring a variety of systems to enhance cash management and cash flow procedures. As an adjunct to this effort, cash flow procedures have been improved by depositing estimated duties in approved banks no later than the following day. Both procedures are designed to expedite the flow of funds.

Currently and in FY 1986, we anticipate that commercial fraud detection will be a high priority effort. Customs emphasis on deterring fraud and revenue protection has been significantly enhanced by the implementation of a centralized approach for coordinating and disseminating information and intelligence to field units. Furthermore, special fraud teams consisting of import specialists, special agents, and regulatory auditors are now operating in almost all districts. The teams are responsible for developing leads by applying multi-disciplinary expertise of commercial transactions to detect potential fraudulent activities. Import specialists also will use their expertise to develop sound information for criminal and civil violations. These special teams will increase our success in prosecuting major violators.

The following table presents the workload factors related to the Tariff and Trade activity.

Salaries and Expenses, United States Customs Service

| | FISCAL YEARS (Thousands) | | | | |
|---|---|---|---|---|---|
| | 1982 | 1983 | 1984 | 1985(Est.) | 1986(Est.) |
| Formal entries filed.... | 4,753 | 5,314 | 6,421 | 6,742 | 7,079 |
| Mail Packages received.. | 40,997 | 38,846 | 44,176 | 35,500 | 45,000 |
| Informal entries........ | 2,889 | 3,143 | 3,373 | 4,104 | 4,104 |
| Total collections (Millions of Dollars)... | $ 9,980 | $ 9,785 | $12,540 | $13,856 | $15,408 |

## 3. Tactical Interdiction

Established to protect the vast border areas, Customs Tactical Interdiction Program maintains mobile air, land and sea interdiction units dedicated to countering a growing narcotics and contraband smuggling threat. Since drug smuggling increasingly constitutes a majority of this contraband, our efforts are concentrated on stemming the flow of narcotics into this country.

Customs tactical operational approach aggressively counters today's massive smuggling by redeploying units to meet a geographically shifting drug problem and by concentrating resources in high threat areas. In short, the first element of Customs border interdiction drug strategy has been to maintain a dynamic and flexible mobile force tailored to the current threat. As part of this strategy, Customs resources are concentrated in high risk areas with the greatest potential for successful interdictions.

For the past 5 years, primary emphasis for the tactical interdiction units has been the Southeast border, particularly Florida and the Gulf states where massive drug smuggling is a continuing problem and where illegal currency enters and leaves daily. It is this area which is the financial center for international drug trafficking. The smuggling threat involves private aircraft and vessels, as well as cargo and air passengers. Private yachts and "Mother" ships (essentially ocean-going vessels) sailing directly from Columbia and other source countries, regularly land vast quantities of marihuana along the Florida and Gulf coasts. In recent years, smuggling of cocaine via private aircraft also has grown dramatically in this region as well as along the Southwest border.

We anticipate that the smuggling threat will continue to increase in FY 1986, and that the very lucrative nature of the narcotics trade will allow and encourage smugglers to employ new smuggling and state-of-the-art technology to evade enforcement efforts. Customs tactical interdiction forces must meet this challenge by placing more emphasis on the development and application of tactical intelligence, the use of high technology and the mobility to place resources at the right place at the right time. Therefore, as a major force in the vanguard to Customs enforcement initiatives, Customs has modified its modes of operation to reflect the importance of information gathering and the utilization of tactical intelligence in the interdiction process.

Marine Program:

Operating in conjunction with the Air Program, Customs Marine Program protects the sea approaches to the nation's borders. The Marine Program has been confronted with similar growth in its smuggling problem. The program operates 127 boats, ranging in size from 15 to 60 feet, and stationed at 60 locations. These vessels are used for surveillances, waterside raids, intelligence gathering, and interdiction. The most common methods employed by large-scale smugglers are "motherships," stashes on off-shore islands and "air drops." Recent seizures indicate that large-scale smuggling by vessel, while still active in the Southeast and Gulf Coast, is increasing along the Pacific, Mid-Atlantic and New England coastal areas.

Tactical Enforcement has developed a two-pronged coordinated marine interdiction program. In order to counter the threat of narcotics smuggling by private and fishing vessels, the successfully tested Marine Enforcement Modules will be stationed in as many locations as resources permit. Each module will consist of specially trained personnel and state-of-the-art marine equipment. Each team will be responsible for developing tactical information on smuggling in its local area and for interdicting marine smugglers. In addition, in order to combat smuggling at major seaports via commercial vessels, Customs has developed a strategic tactical enforcement presence in selected seaports. Customs officers develop information targeting specific persons, groups and vessels and conduct intensive vessel searches to locate and seize concealed narcotics.

Customs established two marine enforcement modules in FY 1984 using existing resources and making maximum use of seized and forfeited vessels to equip the modules. Exchange/sale provisions were used to obtain the high-speed interceptor boats needed. Information, developed through the module, contributes to a more reliable and responsive intelligence network and results in more arrests and seizures of contraband.

The inadequate range of radio communications and voice privacy capability have hampered marine module operations and other tactical interdiction operations. Customs has taken appropriate steps to solve this problem by acquiring a limited number of fixed and mobile radio communications repeaters. Also, high frequency/single side band (HF/SSB) radios have been issued to enforcement elements, assuring unlimited range as well as voice privacy for radio communications.

### Air Program:

In an effort to respond effectively to smuggling by private aircraft, Customs air program is concentrating on aircraft interception, tracking and detection in an integrated configuration in high threat areas. This approach was established and proven effective in South Florida. The air strategy design is structured to be consistent with the overall objectives and mission of the program: (1) to detect and apprehend persons involved in the smuggling of contraband by private aircraft; and (2) to provide assistance to other interdiction efforts of Customs and other agencies in the law enforcement community. The air interdiction effort uses strategic and tactical intelligence to select the optimum times and places for deployment of interdiction resources, monitors detection systems to identify suspect aircraft and directs apprehension helicopter and ground support units to effect arrests and seizures.

Customs Air Branches are located at Miami, Jacksonville, New Orleans, San Antonio, El Paso, Houston, Tucson and San Diego. Resources at the branches consist of high speed jet interceptors, equipped with radar and infrared detection sensors, long range tracker aircraft, high performance helicopters and single and multi engine support aircraft. The Air Program also utilizes airborne and land based radar to enhance detection and tracking capabilities. In addition, Customs is operating a P-3A detection aircraft supplied by the Navy and modified with an APG-63 radar. The first of these aircraft will complement the in-place detection support and it will be used eventually along the entire southern border.

Customs believes that increased effectiveness has resulted from the implementation of strong, centralized management of the program and the establishment of the East and West ROCC's (Regional Operations Control Centers). This new management configuration has resulted in greater control and flexibility for responding to the shifting smuggling threat.

### FY 1985/1986 Strategies and Accomplishments:

In FY 1986, we anticipate that drug smuggling will continue to be a major national problem despite strong deterrents, due to the lucrativeness of trafficking in drugs. To counteract smuggling by air, Customs will expand its air interdiction program as additional loaned military equipment, improved facilities and other available support. The module concept, backed by increased intelligence and centralized management, will make it possible for Customs to successfully target its efforts to counteract a shifting smuggling threat, thereby increasing the effectiveness of its operations. In response to changing threat the Air Program is planning to establish an air unit in New York. The unit will be located at MacArthur Airport, Long Island and will consist of 4 pilots, 1 twin engine fixed wing aircraft and 1 Bell Jet Ranger helicopter. The air unit will be operational by the Spring of 1985.

With regard to the anticipated increased drug smuggling by sea, the marine interdiction program will continue to expand. Customs anticipates establishing additional marine modules. A module will be located in New York and others are planned for Key West, Miami, Key Largo, West Palm Beach, Galveston, and New Orleans. The establishment of these marine modules will greatly improve our enforcement results, significantly increasing seizures and arrests.

## 4. Investigations

As the investigative law enforcement arm of Customs, this program has the responsibility for investigating violations of laws and regulations enforced by Customs such as currency, fraud, neutrality, smuggling, illegal exports of critical technology, and cargo theft. These investigations support the national priority enforcement efforts combatting narcotics smuggling, economic crime and national security violations.

Currently, four major areas are emphasized within Customs investigations program: financial investigations, fraud investigations, export enforcement and international enforcement. Customs actively seeks the prosecution of sophisticated criminal enterprises associated with financing drug smuggling in violation of the Currency Reporting and Bank Secrecy Acts and the prosecution of major importing corporations which violate Customs fraud statutes. In addition to this, Customs continues to emphasize the detection and prevention of illegal exports of critical technology to Soviet Bloc countries and the reduction of the growing traffic in illegal arms and munitions. The final area, international enforcement, emphasizes improved intelligence gathering methods. Enhanced international enforcement in the form of new and expanded Customs foreign offices and increased interchange of intelligence with foreign law enforcement counterparts will provide major dividends to Customs by providing leads and intelligence to support our domestic cases.

The major policy issue facing Customs Investigations Program is how to affect major disruptions to large-scale criminal enterprises; develop cases and prosecute violators of financial and fraud statutes; and prevent the export of critical technology to hostile nations without interfering with legitimate business activities. Targeting is the principal technique used to implement a more selective and effective system that minimizes disruption of legitimate activities while still enforcing the law.

Targeting depends heavily on the development and collection of intelligence. To focus and target efforts to detect and apprehend violators, Customs will increase its use of covert operations; better utilize informants; and sharply increase the use of computer assisted techniques. Successful prosecution of violators will also be based on targeting, through appropriate data gathering and ADP support intelligence analysis; investigating high potential cases; and presenting sufficient appropriate evidence.

## Salaries and Expenses, United States Customs Service

The challenge presented by the availability of resources, mobility and sophistication of the criminal organizations is being answered in part by Customs expanded capability to target significant violators, by correlating commercial, financial and economic data using ADP systems, within selected "high-risk" areas. In addition, operationally, we are using integrated functional teams in high-activity locations to improve our enforcement effectiveness. Overall, we are conducting more complex and high quality investigations, which results in fewer cases, by increased results.

### Enhanced Financial Law Enforcement Program:

The Enhanced Financial Law Enforcement Program, formerly known as Operation EL DORADO, is comprised of multiagency financial task force operations, not counting the Organized Crime Drug Enforcement Task Forces (OCDETF), located in 30 cities throughout the United States. The first EL DORADO task forces were initiated in New York and Los Angeles in May 1982. Presently, all task forces are staffed by U.S. Customs Service, Drug Enforcement Administration and Internal Revenue Service special agents and analysts. This program focuses on investigations of organizations and individuals responsible for money laundering schemes involving unreported imported/exported currency/monetary instruments in violation of the Bank Secrecy Act (BSA). During FY 84, the program produced 48 indictments, 70 arrests, 33 convictions, and $17.9 million in U.S. currency seized. Many significant conspiracy investigations are in progress.

The Financial Law Enforcement Center (FLEC) is the national clearinghouse for the Financial Data Base (FDB). The FDB is comprised of data and information taken from various forms which are required per the BSA. FLEC has two primary missions. The first is release of information contained on the forms to federal, state, local, and foreign law enforcement agencies for use in criminal investigations and prosecution. The information may be hard copies for use as evidence; computer printouts especially programmed for particular aspects of an investigation; or summaries for particular geographic or other definitive areas. The second mission of FLEC is the production of analytical reports focusing on particular profiles where money laundering is known or suspected. During FY 84, FLEC produced approximately 170 reports identifying 1,700 individuals and 500 companies who may be potential money launderers; The total cash figure was over $2 billion. FLEC also processed approximately 500 requests from all levels of law enforcement entities for FDB information.

## Salaries and Expenses, United States Customs Service

### Drug Enforcement Task Forces:

In FY 86, Customs plans to continue with current commitments of resources to the Presidential Organized Crime Drug Enforcement Task Forces (OCDETF). These specialized multi-departmental investigative task forces focusing on large-scale drug smuggling organizations, approach each target simultaneously exploiting the financial, the internal conspiracy and the interdiction/smuggling elements of each organization. During FY 84, U.S. Customs resources were committed to all task forces, including the 12 core cities. During FY 85, the task forces were expanded to include the addition of a 13th core city in Miami. OCDETF results in FY 84 on those cases involving Customs participation included: 727 individuals indicted; 860 arrests; 277 convictions; $16.2 million in U.S. currency seized; $17.5 million in other property seizures; 47,156 kilograms of marijuana seized; 238 kilograms of cocaine seized; and 12 kilograms of heroin seized.

### Fraud Program:

The shift in recent years of investigative resources to significant fraud investigations has produced excellent results in terms of financial gains to the government as well as the prosecution of significant criminal cases. Domestic industries have been protected from unfair and illegal international trade practices and the government has received substantial monetary returns from criminal fines and civil penalties.

In FY 84, Operation Tripwire accounted for 279 arrests and indictments with 117 convictions obtained in that year. In addition, 412 cases have been accepted for prosecution and 1,705 seizures were made with a value of $62,621,856. Mitigated penalties for the year amounted to $30,260,263.

Current plans are for Customs to continue concentrating its investigative efforts on fraud violations involving steel, textile, wearing apparel, drawback, and trademark and copyright violations. Increased prosecutions and penalties resulting from these investigative areas will play a major role in insuring that lawful revenues are collected and the integrity of trade agreements are maintained.

Based on accomplishments in FY 1984, task force operations will continue on major investigations. Major task forces have been established to intercept illegal merchandise before it enters United States commerce and to investigate cases arising during intensified inspections. The task forces focus on high risk importations at major ports of entry to assure continued high quality arrests, major revenue recoveries and a highly visible deterrent to the import business community. In addition, the Fraud Investigations Center will be steadily expanded to improve data acquisition, intelligence analysis targeting and trend analysis.

## Operation EXODUS:

Operation EXODUS, a comprehensive program to combat illegal exports of critical technology, is Customs response to the growing threat posed to our national security by the Soviet Union and other hostile governments; also included is the threat of the illegal export of arms and munitions. In FY 1984, EXODUS teams located at major ports made 1,459 seizures. Subsequently, 663 major investigations were accepted for prosecution; and Customs officers were responsible for 354 indictments, 258 arrests and 136 convictions throughout the year. Investigations conducted to date have revealed a broad pattern of criminal activity and intelligence reports indicate that the threat is growing.

Customs response to this threat has been to mount a major effort to target sensitive exports while minimizing the impact on legitimate trade. Expanded use of special targeted enforcement operations which concentrate on highly selective types of critical exports as well as increased foreign office activity are critical to EXODUS. Contacts with other enforcement agencies and the intelligence community also have been expanded. ADP support has been enhanced to increase the analytical intelligence, and communications capabilities supporting our enforcement officers in the field. An added benefit derived from these investigations is intelligence on the illegal financial arrangements supporting such smuggling.

Under EXODUS, Customs both initiates investigations and works with the Commerce Department in investigating allegations of illegal exports of sensitive technology. These investigations are usually very complex and time-consuming, and frequently involve other Federal agencies and law enforcement groups of other nations. Nevertheless, Customs considers this investment of effort to be highly cost-effective in producing future "dividends" in the form of high quality cases accepted for prosecution.

In FY 1986, a wide range of enforcement initiatives will be implemented: additional covert operations; an expanded munitions control program; enhanced liaison with the intelligence community; increased foreign cooperation; and support and assistance to foreign governments in their own conduct of covert operations directed against EXODUS violations.

The areas of export enforcement and financial investigations both require effective support from Customs foreign offices. Our Attaches and Customs Representatives overseas play a vital role in gathering intelligence on violations of Customs laws and regulations as well as laws enforced by Customs on behalf of other agencies. We have recently increased staffing at most of our foreign offices and have secured new offices in Seoul, Korea, and Panama City, Panama, Karachi, Pakistan and Bangkok, Thailand. It is vital to Customs enforcement that we maintain our commitments in the foreign offices so that preinterdiction information on financial, fraud, and critical technology activities is available and appropriate follow up on all investigations of international criminal activity affecting the welfare and revenue of the United States can be implemented.

Cases on hand: (Currency, Fraud, Export, Neutrality cases only)

|  | 9/30/83 | 9/30/84 | % Change |
|---|---|---|---|
| Class* I....... | 2,503 | 2,630 | +5.1 |
| Class*II....... | 438 | 455 | +3.9 |
| Class*III...... | 445 | 408 | -8.4 |
| Total | 3,386 | 3,493 | +3.1 |

* Indicates priority and importance of cases.

General and special funds:

## Salaries and Expenses

For necessary expenses of the United States Customs Service, including purchase of two hundred motor vehicles for replacement only, including one hundred and ninety for police-type use; hire of passenger vehicles; not to exceed $15,000 for official reception and representation expenses; and awards of compensation to informers, as authorized by any Act enforced by the United States Customs Service; $639,102,000, of which not to exceed $150,000 shall be available for payment for rental space in connection with preclearance operations and not to exceed $1,000,000, to remain available until expended, for research: Provided, That uniforms may be purchased without regard to the general purchase price limitation for the current fiscal year: Provided further, That none of the funds made available by this Act shall be available for administrative expenses to pay any employee overtime pay in an amount in excess of $25,000: Provided further, That the Commissioner or his designee may waive this limitation in individual cases in order to prevent excessive costs or to meet emergency requirements of the Service Further, notwithstanding any other provision of the law, passenger motor vehicles for police-type use may be purchased without regard to the general purchase price limitation for the current fiscal year. (19 U.S.C. 68, 128, 161, 257, 483, 1303-05, 1431, et seq. 1455, 1496, 1499, 1581, 1585, 1592, 1592a, 1619, 1644, 1701, 2076; 22 U.S.C. 401; 31 U.S.C. 5323; 46 U.S.C. 3, 7, 60, 150, 161, 251, 277, 278, 292, 319, 325, 327, 808, 882, 883, 883a; 49 U.S.C. 1509).

## Explanation of Appropriation Language Changes for Fiscal Year 1986

We request authority to purchase passenger motor vehicles for police-type use without regard to the general purchase price limitation for the current fiscal year.

## SELECTED WORKLOAD DATA
(in thousands)

| Activities and Principal Workload Factors | 1984 Actual | 1985 Program in 1985 Budget | 1985 Program in 1986 Budget | 1986 Estimate |
|---|---|---|---|---|
| 1. Processing of arriving persons and cargo: | | | | |
| a. Formal entries accepted | 6,421 | 5,989 | 6,742 | 7,079 |
| b. Carriers of persons and merchandise arriving from foreign countries | 89,767 | 93,301 | 91,657 | 93,490 |
| c. Persons arriving from foreign countries | 287,800 | 323,000 | 293,556 | 299,427 |
| d. Backlog of unliquidated entries | 1,171 | 1,206 | 1,242 | 1,240 |
| e. Mail packages received | 44,176 | 35,500 | 44,618 | 45,000 |
| f. Mail packages examined | 3,073 | 2,000 | 3,123 | 3,150 |
| g. Mail entries written | 784 | 520 | 738 | 738 |
| h. Merchandise examined (other than mail) | 12,079 | 8,120 | 12,000 | 12,000 |
| i. Statistical data line items verified | 11,321 | 12,453 | 13,698 | 13,698 |
| j. Sample analyses | 85 | 73 | 90 | 90 |
| 2. Investigations of violations of Customs and related laws and regulations: | | | | |
| a. Investigations completed | 4.6 | 9.5 | 5.1 | 5.3 |
| b. Investigations backlog September 30 | 5.3 | 4.0 | 5.0 | 4.9 |

Salaries and Expenses, United States Customs Service

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

| Principal Categories | Actual 1984 | Estimated 1985 | Estimated 1986 | Increases/Decreases for 1986 Total | Increases/Decreases for 1986 Program | Increases/Decreases for 1986 Other |
|---|---|---|---|---|---|---|
| Customs Programs: | | | | | | |
| Inspectors | 4,280 | 4,372 | 4,166 | -206 | — | -206 |
| Import Specialists | 1,042 | 1,023 | 766 | -244 | — | -244 |
| Stenographers, Typists and Secretaries | 641 | 619 | 609 | -10 | — | -10 |
| Other Clerks | 547 | 527 | 520 | -7 | — | -7 |
| Customs Aids | 1,015 | 1,015 | 970 | -45 | — | -45 |
| Laboratory employees | 140 | 140 | 90 | -50 | — | -50 |
| Customs Patrol Officers | 1,246 | 1,246 | 1,246 | — | — | — |
| Other Regional and District Employees | 1,598 | 1,571 | 1,308 | -263 | — | - 263 |
| Customs Agents | 932 | 1,009 | 1,009 | — | — | — |
| Other Investigations Employees | 145 | 170 | 151 | -19 | — | -19 |
| Internal Affairs Employees | 161 | 153 | 153 | — | — | — |
| Regional Counsel Employees | 78 | 78 | 78 | — | — | — |
| Headquarters Employees | 1,057 | 1,057 | 1,027 | -30 | — | -30 |
| Subtotal | 12,882 | 12,980 | 12,093 | -874 | — | -874 |
| Part time and Temporary Average Positions | 437 | 438 | 425 | -13 | — | -13 |
| Total Average Positions | 13,319 | 13,418 | 12,531 | -887 | — | -887 |

Salaries and Expenses, United States Customs Service

## EXPLANATION OF FY 1986 BUDGET INCREASES, DECREASES, AND PROGRAM CHANGES

### PROGRAM CHANGES

A. Implementation of Management Savings.......................... $ 5,229,000

To implement the management savings in FY 1986 Customs will incur specific one-time costs realizing its staffing and facilities. These costs include relocations, facility preparation, equipment procurement and transfer, as well as other operational support activities.

B. Management Initiatives:

1. Fiber Optics.................................................$ 300,000

To counteract the ever increasing amount of narcotics being smuggled into the United States, Customs is proposing to acquire technology for more effective contraband detection at ports of entry. Use of fiber optics inspection devices for examining vehicles, gas tanks, tires, aircraft, container walls, vessel compartments and other currently inaccessible locations will allow more effective examination in less time with minimal inconvenience to the travelling public and the business community. In addition, use of the device does not harm the item being inspected. Customs plans to deploy fiber optics inspection devices, or Fiberscopes, to Contraband Enforcement Teams (CET's) at major ports of entry throughout the country. In FY 1986, approximately 57 devices will be deployed to CET locations in selected areas.

2. Integrated Data Telecommunications Network.......................$ 2,800,000

An integrated data telecommunications network is necessary to Customs in order to modernize and consolidate its two independent telecommunications networks. Converting these networks into one integrated system would enable Customs to utilize the latest technology, thereby improving enforcement and commercial operations. The ultimate results of this enhancement will be speedier passenger and cargo facilitation. Currently, the Customs Service has two independent telecommunications networks. One supports the Treasury Enforcement Communications System (TECS) and operates on a Burroughs 7700 computer in San Diego, California. The other supports Customs commercial and administrative systems and runs on an IBM 3081 located in Franconia, Virginia. These two networks were designed and built independently. Some of the equipment is obsolete and/or overtaxed. These independent networks also present design constraints as Customs develops more information systems, resulting in redundancy. Finally, the networks have incompatible circuits, which can only be joined on an ad hoc basis. This factor makes it difficult to support the dense traffic level and wide geographical dispersion characterizing Customs data telecommunications system.

The proposed system will allow Customs to consolidate the TECS communications network with commercial and administrative systems. The integrated telecommunications network will reduce operating costs and staff hours by eliminating the duplication which the two separate networks have created. Customs will be utilizing its computer resources more efficiently. Response times will shorten and personnel will have access to more types of data.

3. Automated Commercial System....................................$ 6,600,000

Consistent with the long-range plans for the Automated Commercial System, additional refinements to the hardware and software components will be required in FY 1986. Specifically, system development and hardware expansion for the following modules is necessary: Manifest Processing; Quota; Account Billing; In-bond; Fines, Penalties and Forfeiture/ACS Integration; and the Customs Information Exchange. In order to fully execute the commercial side of Customs mission, ACS will be emphasizing selectivity to more quickly and accurately determine which importations should be intensively examined by the inspector and which are most likely to require classification or value changes by the import specialist. With the level of foreign trade rising dramatically, proper inspection, examination, valuation and classification are needed to ensure that Customs is collecting all duties required by law.

The Automated Broker Interface (ABI), as well as an integrated data base, will eliminate the keying of redundant data, while paving the way for paperless entry. As current procedures require extensive back-up documentation for each entry in order to determine proper classification, the elimination of this requirement for all but the entries selected for intensive review will reduce the amount of paperwork both for Customs and importers and speed-up processing. These enhancements would constitute substantial progress toward Customs goal of paperless entry. Eventually, ACS will enable Customs to collect duties and taxes from importers by account, rather than by processing a single collection at a time, which is the current procedure. Our request will expedite the conversion to Account Billing, improve productivity, and bring Customs closer to achieving an integrated data base for storing all commercial data.

4. TECS II Design and Development ........................................................ $ 4,000,000

The law enforcement community has many information requirements that can no longer be met by the existing hardware configuration, systems softwear and data base design in the current Treasury Enforcement Communications System (TECS). This fifteen-year-old system must be modernized with technologically-advanced equipment. The plan for this enhancement includes another benefit: an interface with Customs commercial systems. Since its inception as a modest southern border lookout system for Customs in 1969, then known as CADPIN (Customs Automated Data Processing Intelligence Network) and comprised of 18 terminals at the Mexican border crossing of San Ysidro, California, TECS has grown to become a multi-faceted communications and enforcement support EDP system. It consists of over 1,700 terminals and approximately 40 subsystems. The system provides law enforcement support to 10 agencies in and outside Treasury.

The thrust of TECS II Design and Development is to attain a comprehensive enforcement data base system whose underpinnings are state-of-the-art hardware, software and data base management systems. All current TECS users will contribute their expertise to the design of TECS II and will, therefore, have firsthand experience with TECS II as it evolves. This system will provide for the expansion and integration of the existing automated enforcement efforts, such as Operation EXODUS, the Treasury Financial Law Enforcement System and commercial fraud. This initiative will afford Customs the flexibility; to proceed with TECS II plans in a timely and effective manner. It will also cover the expenses of contractors, data base designs, software, a main frame computer and terminals.

5. Wind Tunnel ........................................................................ $ 500,000

Customs is committed to using technology wherever it may increase enforcement and inspectional effectiveness. The Wind Tunnel will not only enhance the inspector's capability of detecting the illegal entry of drugs into the U.S., it will quickly pay for itself by facilitating passenger processing and more accurate selectivity. The Wind Tunnel is well suited to meet these goals when operated with all inspectional approaches, including Red/Green. Customs has demonstrated its effectiveness in several pilot tests. Air travellers and Customs inspectors alike will benefit from the quicker, easier passenger facilitation.

The Wind Tunnel, a prototype walk-through narcotics detection system, was developed early in this decade and tested at airports in Houston, Texas, and Miami, Florida during FY 83. Its design accounts for wide variations in airport facilities and operational constraints. The prototype was then refined to improve its effectiveness and another test conducted. The second round of testing, begun in July, 1984, continues in Miami. While 200 Wind Tunnel units would be needed to provide coverage at major airports and all preclearance airports, Customs is currently proposing to purchase and install 10 Wind Tunnels at major airports.

Salaries and Expenses, United States Customs Service

OTHER CHANGES

A. Increases Necessary to Maintain Current Levels........................$30,609,000

1. Net Cost of Within Grade Salary Increases...........................$3,225,000

Based on the experience of turnover savings and promotions, it is estimated that the net changes (FY 1985 carryover plus FY 1986 cost) in pay for within-grade increases will require funding of $3,225,000, which includes related benefits.

2. Grade-to-Grade Promotions...........................................$653,000

Based on the new positions authorized in prior years which qualify for annual trainee-to-journeyman promotions. The estimate is a combination of the cost of these increases in FY 1986 and the carryover portion of FY 1985 promotions.

3. Payment to Employee Compensation Fund...............................$588,000

Based on cost of compensation and medical benefits paid during FY 1984 by the Office of Workers Compensation Program, additional funds of $588,000 are required for FY 1986.

4. Payment to Unemployment Compensation Fund...........................$387,000

Reflects the amount due the IRS for payments made on behalf of Customs employees.

5. Increased Cost of Employee Benefits.................................$1,521,000

The employee health benefits program experienced an increase in 1984 of 12 percent. The increase of $1,521,000 for FY 1986 reflects the estimate over FY 1984 requirements.

6. Payment to Social Security Trust Fund...............................$668,000

Employees hired after January 1, 1984, are now contributing to Social Security. In order to match this amount, and make rate adjustments for current personnel, we are requesting these funds.

Salaries and Expenses, United States Customs Service

7. Increased Pay Costs........................................................$11,812,000

This request is based on the annualization and carryover of the one half percent increment in the FY 1984 pay increase ($2,158,000) and annualization and unfunded portion of the FY 1985 pay increase ($9,654,000).

8. Travel and Transportation Costs........................................$1,099,000

This request is based on two factors: the rising cost of fuel and the increases in air fares and other modes of transportation.

9. Permanent Change of Station Moves...................................$969,000

Based on new regulations, an increase of $969,000 will be required in FY 1986.

10. Payment to GSA for Services............................................$2,971,000

This reflects payments to GSA for increased cost of services and the annualization of space for new border ports (e.g. OTAY MESA, Laredo, etc.).

11. Chargeback to FLETC for Student Services..........................$100,000

These funds will cover costs that FLETC previously included in student charges but they will no longer do so.

12. Cost of FTS and Other Communications...............................$2,718,000

The increase for FTS and other communications costs is based on an estimated increase of 15 percent for lines and equipment and restructuring of the Wide Area Telephone Services rates.

13. Equipment Leasing and Maintenance Costs..........................$1,385,000

Reflects inflationary increases for leasing and maintaining word processors, copiers and all other types of equipment.

14. Extra Holiday (Martin Luther King)....................................$327,000

Adjustment for the newly established holiday effective in FY 1986.

15. Printing Costs........................................................$141,000

This request reflects an anticipated increase of five percent for printing costs.

16. Costs of Outside Contracts............................................$772,000

Based on estimates of the rate of inflation as applied to costs for ADP studies, custodial services, research and development and miscellaneous contracts.

17. Reimbursement of Services of Other Government Agencies...............$504,000

This request is based on past historical estimates.

18. Cost of Supplies......................................................$503,000

Based on current cost increase estimates in FY 1986, applied against the current year cost for supplies.

19. Equipment Procurement Cost............................................$266,000

This request reflects an anticipated 4.6 percent inflation rate of equipment procurement costs.

B. Reductions, Nonrecurring Costs, and Savings

1. Reductions.........................................................$-17,600,000

Projected five percent pay reduction.

2. Nonrecurring Costs.................................................$-14,984,000

These reductions in the FY 1986 request reflect nonrecurring costs such as equipment funding for Radio Voice Privacy ($5,409,000), Automated Commercial System ($6,600,000), Integrated Data Telecommunications ($1,875,000) and one-time costs associated with establishing a 13th City OCDETF ($1,100,000).

## UNITED STATES CUSTOMS SERVICE
## Salaries and Expenses

| | 1984 Actual | 1985 Estimate | 1986 Estimate |
|---|---|---|---|
| Direct Program | | | |
| ES-6 | 1 | 1 | 1 |
| ES-5 | 1 | 1 | 1 |
| ES-4 | 18 | 18 | 18 |
| ES-3 | 7 | 7 | 7 |
| ES-2 | 4 | 4 | 4 |
| ES-1 | 13 | 13 | 13 |
| Subtotal | 44 | 44 | 44 |
| GS/GM-15 | 175 | 175 | 171 |
| GS/GM-14 | 440 | 440 | 434 |
| GS/GM-13 | 1,148 | 1,144 | 1,106 |
| GS-12 | 1,686 | 1,684 | 1,630 |
| GS-11 | 2,147 | 2,145 | 1,944 |
| GS-10 | 11 | 11 | 10 |
| GS-9 | 3,475 | 3,475 | 3,173 |
| GS-8 | 97 | 97 | 96 |
| GS-7 | 856 | 909 | 859 |
| GS-6 | 557 | 557 | 527 |
| GS-5 | 1,695 | 1,748 | 1,648 |
| GS-4 | 572 | 572 | 557 |
| GS-3 | 308 | 308 | 303 |
| GS-2 | 30 | 30 | 30 |
| GS-1 | 6 | 6 | 6 |
| Subtotal | 13,203 | 13,301 | 12,494 |
| Ungraded | 123 | 125 | 120 |
| Total (Direct) | 13,370 | 13,470 | 12,658 |
| Reimbursable Program: | | | |
| GS/GM-15 | 1 | 1 | 1 |
| GS/GM-14 | 9 | 9 | 9 |
| GS/GM-13 | 12 | 12 | 12 |
| GS-12 | 17 | 17 | 17 |
| GS-11 | 52 | 52 | 52 |
| GS-9 | 215 | 215 | 215 |
| GS-8 | 1 | 1 | 1 |
| GS-7 | 184 | 184 | 184 |
| GS-6 | 134 | 134 | 134 |
| GS-5 | 4 | 4 | 4 |
| GS-4 | 4 | 4 | 4 |
| GS-3 | 3 | 3 | 3 |
| Subtotal | 636 | 636 | 636 |
| Ungraded | 22 | 22 | 22 |

3. Management Savings..................................................$-29,040,000

Customs in FY 1986 is proposing to continue to implement specific management efficiencies; organizational consolidations and realignments; centralization of its administrative services; and operational efficiencies related to reimbursing Customs for port services. These management savings will provide in FY 1986 gross savings of $29,040,000 and 887 average positions. To achieve these savings, Customs intends to make more effective use of automation and economies of scale, while reducing duplication in processing and management. Specifically, the proposed management savings include: centralizing administrative functions and offices and streamlining the laboratory system.

## DEPARTMENT OF THE TREASURY
## SALARIES AND EXPENSES, UNITED STATES CUSTOMS SERVICE
## STANDARD CLASSIFICATION SCHEDULE
## (DIRECT OBLIGATIONS ONLY)

| | Appropriation 1984 | Authorization 1985 | Request 1986 | 1986 Increase/Decrease Over 1985 |
|---|---|---|---|---|
| Total number of permanent positions............ | 13,370 | 13,500 | 12,614 | -886 |
| Average paid employment........................ | 13,319 | 13,418 | 12,531 | -887 |
| Object Classification: (Dollars in Thousands) | | | | |
| Personnel Compensation: | | | | |
| Permanent positions........................ | 348,572 | 362,359 | 342,616 | -19,743 |
| Positions other than permanent............. | 10,123 | 9,902 | 9,747 | -155 |
| Other personnel compensation............... | 40,450 | 41,732 | 41,648 | -84 |
| Special personal services payments......... | 1,981 | 3,681 | 3,681 | -- |
| Total personnel compensation............ | 401,126 | 417,674 | 397,692 | -19,982 |
| Personnel benefits............................. | 55,900 | 62,305 | 68,114 | 5,809 |
| Benefits for former personnel.................. | -- | 200 | 587 | 387 |
| Travel and transportation of persons........... | 13,457 | 16,098 | 17,780 | 1,682 |
| Transportation of things....................... | 3,195 | 3,280 | 5,245 | 1,965 |
| Rent, communication and utilities: | | | | |
| Standard level user charges................ | 38,206 | 44,737 | 45,999 | 1,262 |
| Other rent, communication and utilities.............................. | 31,895 | 35,971 | 42,774 | 6,803 |
| Printing and reproduction...................... | 2,318 | 2,854 | 2,995 | 141 |
| Other services................................. | 29,069 | 27,993 | 36,555 | 8,562 |
| Supplies and materials......................... | 8,358 | 9,206 | 9,562 | 356 |
| Equipment...................................... | 12,398 | 30,245 | 11,674 | -18,571 |
| Lands and structures........................... | -- | -- | -- | -- |
| Insurance, claims and indemnities.............. | 120 | 125 | 125 | -- |
| Total obligations | 596,042 | 650,688 | 639,102 | -11,586 |
| Unobligated balance A/ | 3,439 | -- | -- | -- |
| Total Appropriation, Authorized Level, and Budget Estimate | 599,481 | 650,688 | 639,102 | -11,586 |

A/ Unobligated balance includes $3,385,000 of no-year funding.

## CONSULTING AND RELATED SERVICES

Each year, the U.S. Customs Service enters into several small consulting service arrangements to obtain professional or technical advice which is not already available within the agency. These services allow Customs to obtain objective outside views and expertise. For example, in FY 1984 Customs hired consultants to review and assess our mission, policies, results, and strategies on several programs and organizations. These analyses assisted Customs management in determining operational requirements for resources, future budget levels, and appropriate organizational structures.

If such studies and analyses are not conducted, Customs would not benefit from the expertise of persons that contribute to the success of important projects. Technical consultants have periodically been used to solve problems in the design and development of the Automated Commercial System, without which implementation of the system would be impossible.

Before entering into consulting service arrangements, Customs reviews in-house capabilities and those within other government agencies. Customs also considers using temporary or intermittent employees, but in highly technical areas the restrictive federal compensation system makes it impossible to attract highly specialized technicians.

## CONSULTING AND RELATED SERVICES
($000)

| | Appropriation FY 1984 | Authorized FY 1985 | Estimate FY 1986 |
|---|---|---|---|
| Consulting Services | -0- | 32 | 15 |
| Management and Professional Services | 60 | 10 | 10 |
| Special Studies and Analyses | 226 | 200 | 62 |
| Management and Support Services for Research and Development | 22 | 58 | 20 |
| Total Consulting and Related Services | 308 | 300 | 107 |

## Average Grade and Salaries
## U.S. Customs Service

| | FY 1984 | FY 1985 | FY 1986 |
|---|---|---|---|
| Average ES Salary | $63,675 | $65,585 | $67,552 |
| Average GS/GM Grade | 9.24 | 9.10 | 9.00 |
| Average GS/GM Salary | $24,620 | $24,946 | $25,694 |
| Average grade, grades established by Administrator Agency for International Development (75 Stat. 450) | 9.73 | 9.73 | 9.73 |
| Average Salary (75 Stat. 450) | $40,199 | $41,404 | $42,646 |
| Average Salary ungraded positions | $20,044 | $20,645 | $21,264 |

## Detail of Permanent Positions
## UNITED STATES CUSTOMS SERVICE
## Salaries and Expenses

| | 1984 Actual | 1985 Estimate | 1986 Estimate |
|---|---|---|---|
| Total (Reimbursable)............. | 658 | 658 | 658 |
| Grades Established by the Administrator Agency for International Development (75 stat. 450) | | | |
| FC-12 50,495 - 65,642 | 3 | 3 | 3 |
| FC-11 42,929 - 55,807 | 8 | 8 | 8 |
| FC-10 36,327 - 47,226 | 1 | 1 | 1 |
| FC-9 30,549 - 39,711 | 6 | 6 | 6 |
| FC-8 25,499 - 33,139 | 3 | 3 | 3 |
| FC-6 21,066 - 27,384 | 2 | 2 | 2 |
| Subtotal.................. | 23 | 23 | 23 |
| Total permanent positions.. | 14,051 | 14,151 | 13,295 |
| Unfilled positions end of year. | -768 | -525 | -492 |
| Total permanent employment end of year.................. | 13,283 | 13,626 | 12,803 |

### Detail of Permanent Positions
### UNITED STATES CUSTOMS SERVICE
### Miscellaneous Permanent Accounts

| | 1984 Actual | 1985 Estimate | 1986 Estimate |
|---|---|---|---|
| GS/GM-15 | 1 | 1 | 1 |
| GS/GM-14 | 5 | 5 | 5 |
| GS/GM-13 | 11 | 11 | 11 |
| GS-12 | 22 | 22 | 22 |
| GS-11 | 50 | 50 | 50 |
| GS-10 | 2 | 2 | 2 |
| GS-9 | 91 | 91 | 91 |
| GS-8 | 2 | 2 | 2 |
| GS-7 | 10 | 10 | 10 |
| GS-6 | 9 | 9 | 9 |
| GS-5 | 31 | 31 | 31 |
| GS-4 | 10 | 10 | 10 |
| GS-3 | 3 | 3 | 3 |
| GS-2 | 2 | 2 | 2 |
| Subtotal | 249 | 249 | 249 |
| Ungraded | 16 | 16 | 16 |
| Total permanent positions | 265 | 265 | 265 |
| Unfilled positions end of year | -16 | - 3 | - 3 |
| Total permanent employment end of year | 249 | 262 | 262 |

Operation and Maintenance, United States Customs Services

### ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985
(Dollars in Thousands)

| | Perm. Pos. | Avg. Pos. | Amount |
|---|---|---|---|
| 1985 Appropriation Enacted by Congress.................................. | — | — | 44,425 |
| Estimate, 1986.......................................................... | — | — | 60,425 |

### DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1986

| | Appropriation FY 1984 | | Authorized Level FY 1985 | | Budget Estimate FY 1986 | | Increase or Decrease (-) for FY 1986 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Total Changes | | Program Changes | | Other Changes | |
| | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount |
| 1. Air Operations and Maintenance | — | 34,252 | — | 44,425 | — | 60,425 | — | 16,000 | — | 16,000 | — | — |
| Unobligated Balance | | 21,748 | | | | | | | | | | |
| Total appropriation, and authorized level, and budget estimate | — | 5[illegible] | — | 44,425 | — | 60,425 | — | 16,000 | — | 16,000 | — | — |
| Permanent positions established | — | | — | | — | | — | | — | | — | |

1. Unobligated balance includes $21,204,000 in no-year funding.

Operation and Maintenance, United States Customs Service

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1986
(Dollars in Thousands)

| | Air Operation and Maintenance | | | TOTAL | | |
|---|---|---|---|---|---|---|
| | Pos. | Av. Pos. | Amount | Pos. | Av. Pos. | Amount |
| Program Changes: | | | | | | |
| 1. Research and Development of 360 Degree Radar | — | — | 5,000 | — | — | 5,000 |
| 2. Modification of DOD C-12 Aircraft | — | — | 5,000 | — | — | 5,000 |
| 3. Additional Flight Hours, P-3As | — | — | 4,600 | — | — | 4,600 |
| 4. Operation and Maintenance for two additional Blackhawks | — | — | 1,400 | — | — | 1,400 |
| Total, Program Changes | — | — | 16,000 | — | — | 16,000 |

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1986
(Dollars in Thousands)

| | Air Operation and Maintenance | | | TOTAL | | |
|---|---|---|---|---|---|---|
| | Pos. | Av. Pos. | Amount | Pos. | Av. Pos. | Amount |
| Other Changes: | | | | | | |
| Increases necessary to maintain current levels: | | | | | | |
| 1. Increased costs | — | — | 1,475 | — | — | 1,475 |
| 2. Annualization of current year approved increases | — | — | 3,525 | — | — | 3,525 |
| Subtotal Other Increases | — | — | 5,000 | — | — | 5,000 |
| Reductions, nonrecurring costs and savings: | | | | | | |
| 1. Nonrecurring costs | — | — | - 5,000 | — | — | - 5,000 |
| Total, Other Changes | — | — | — | — | — | — |
| Total Increases or Decreases 1986 compared with Proposed Authorized Level | — | — | 16,000 | — | — | 16,000 |

Operation and Maintenance, United States Customs Service

## Air Operation and Maintenance

In an effort to respond effectively to smuggling by private aircraft, Customs air program is concentrating on aircraft interception, tracking and detection in a modular configuration in high threat areas. This approach was established and proven effective in South Florida. The air strategy design is structured to be consistent with the overall objectives and mission of the program: (1) to detect and apprehend persons involved in the smuggling of contraband by private aircraft; and (2) to provide assistance to other interdiction efforts of Customs and other agencies in the law enforcement community. The air interdiction effort uses strategic and tactical intelligence to select the optimum times and places for deployment of interdiction resources, monitors detection systems to identify suspect aircraft and directs apprehension helicopter and ground support units to effect arrests and seizures.

Customs Air Branches are located at Miami, Jacksonville, New Orleans, San Antonio, El Paso, Houston, Tucson, and San Diego. Resources at the branches consist of high speed jet interceptors, equipped with radar and IRDS, long range tracker aircraft, high performance helicopters and single and multi-engine support aircraft. The Air Program also utilizes airborne and land based radar to enhance detection and tracking capabilities. In addition, Customs is operating a P-3A detection aircraft supplied by the Navy and modified with an APG-63 radar. The first of these aircraft will complement the in-place detection support and it will be used eventually along the entire southern border.

Customs believes that increased effectiveness has resulted from the implementation of strong, centralized management of the program and the establishment of the East and West ROCC's (Regional Operations Control Centers). This new management configuration has resulted in greater control and flexibility for responding to the shifting smuggling threat.

Currently Customs fleet consists of aircraft loaned from the military as well as a Customs regular air fleet. In response to Congressional desire to increase the effectiveness of air interdiction, the acquisition of an increasing number of loaned military aircraft is scheduled, supplementing Customs present air fleet, and making it possible to expand the Air Module Strategy. By the end of FY 1986, to make use of these additional military aircraft, Customs will have acquired related sensor/detector equipment, complementary types of aircraft, additional facilities, and provide increased operations and maintenance for this expanded fleet. As a result of an assessment of various detection systems, Customs will begin to develop a prototype air detection system centered around a 360 degree radar.

## Operation and Maintenance, United States Customs Service

In order to promote and highlight the acquisition, and operation and maintenance of aircraft, radar and facilities, Congress has set up a separate appropriation to fund these crucial Customs law enforcement activities. We expect that with these additional well equipped modules and facilities, and centralized management, significant seizures and arrests will increase, deterring and disrupting the flow of narcotics into the United States.

Operation and Maintenance, United States Customs Service

## EXPLANATION OF FY 1986 BUDGET INCREASES, DECREASES, AND PROGRAM CHANGES

### PROGRAM CHANGES

1. RESEARCH AND DEVELOPMENT OF A PROTOTYPE 360 DEGREE RADAR........................$ 5,000,000

In FY 1984, SRI, International did a study that assessed the various detection systems available for the Air Program. The results of this study, and meetings with contractors and military experts, indicated that the development of a prototype air detection system centered around a 360 degree radar would be the most effective option. With a potential range of 100 miles, a 360 degree radar would greatly increase the detection capabilities beyond that possible with the present forward-looking APG 63 radar. Therefore, this funding will be used to design the radar hardware and software needed to provide the long-range 360 degree capability required for this new system.

2. MODIFICATION OF C-12 AIRCRAFT................................................$ 5,000,000

In line with the expansion of Customs air detection capabilities and to bring Customs to a modular design level at several branches, Customs is scheduled to receive C-12 aircraft on loan from DOD. In order to utilize these aircraft to perform the full range of tracker functions, Customs must modify them with detector radar and infrared sensors. This enhancement provides funding to modify three to four C-12's.

3. ADDITIONAL FLIGHT HOURS FOR THE P-3As........................................$ 1,600,000

In response to Congressional concern about the effectiveness of air interdiction, an increasing number of loaned military aircraft are scheduled to supplement Customs air fleet making it possible to expand the Air Module Strategy. This enhancement enables Customs to utilize to a greater extent the loaned P3A aircraft by funding an increased number of flight hours. This increased airborne radar coverage along our borders should increase the number of suspect smugglers targeted for pursuit and apprehension.

4. OPERATION AND MAINTENANCE OF TWO ADDITIONAL BLACKHAWK HELICOPTERS...............$ 1,400,000

Customs uses high performance helicopters to apprehend suspect aircraft after detected, intercepted, and tracked. Customs currently has 6 Blackhawk helicopters on loan from DOD. As part of the effort to form an air module at each existing air branch, two additional Blackhawks will be acquired, thereby providing each air branch with at least one Blackhawk. This enhancement provides funding for operating and maintaining these two additional Blackhawks.

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## EXPLANATION OF FY 1986 BUDGET INCREASES, DECREASES, AND PROGRAM CHANGES

OTHER CHANGES

A. Increases necessary to maintain current levels.................................$ 5,000,000

1. Annualization of current levels.........................................$ 3,525,000

Funds were provided in FY 1985 for operation and maintenance of newly acquired aircraft. This increase provides the full-year cost to operate and maintain these aircraft during FY 1986.

2. Increased Costs..........................................................$ 1,475,000

Reflects inflationary increases for such items as fuel, equipment and supplies.

B. Reductions, (nonrecurring costs)...........................................$ -5,000,000

Resources were provided in FY 1985 for aircraft modifications and radars and related equipment for loaned military aircraft. These costs are non recurring in FY 1986.

### DEPARTMENT OF THE TREASURY
### OPERATION AND MAINTENANCE, UNITED STATES CUSTOMS SERVICE
### STANDARD CLASSIFICATION SCHEDULE
### (DIRECT OBLIGATIONS ONLY)

| | Appropriation 1984 | Authorization 1985 | Request 1986 | 1986 Increase/Decrease Over 1985 |
|---|---|---|---|---|
| Total number of permanent positions............ | -- | -- | -- | -- |
| Average paid employment........................ | -- | -- | -- | -- |
| Object Classification: (Dollars in Thousands) | | | | |
| Personnel Compensation: | | | | |
| Permanent positions......................... | | | | |
| Positions other than permanent............. | | | | |
| Other personnel compensation............... | | | | |
| Special personal services payments......... | | | | |
| Total personnel compensation............ | | | | |
| Personnel benefits............................. | | | | |
| Benefits for former personnel.................. | | | | |
| Travel and transportation of persons........... | 681 | 2,229 | 2,243 | 14 |
| Transportation of things....................... | 121 | 200 | 200 | -- |
| Rent, communication and utilities: | | | | |
| Standard level user charges................ | | | | |
| Other rent, communication and utilities................................ | 863 | 1,050 | 1,073 | 23 |
| Printing and reproduction...................... | 1 | 0 | 0 | 0 |
| Other services................................. | 24,814 | 28,641 | 39,166 | 10,525 |
| Supplies and materials......................... | 4,905 | 9,790 | 13,026 | 3,236 |
| Equipment...................................... | 2,866 | 2,515 | 4,717 | 2,202 |
| Lands and structures........................... | | | | |
| Insurance, claims and indemnities.............. | 1 | | | |
| Total obligations | 34,252 | 44,425 | 60,425 | 16,000 |
| Unobligated balance A/ | 21,748 | -- | -- | -- |
| Total Appropriation, Authorized Level, and Budget Estimate | 56,000 | 44,425 | 60,425 | 16,000 |

A/ Unobligated balance includes $21,204,000 in no-year funding.

Customs Forfeiture Fund, United States Customs Services

## ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985
(Dollars in Thousands)

| | Perm. Pos. | Avg. Pos. | Amount |
|---|---|---|---|
| 1985 Proposed Supplemental.................................................. | — | — | 6,000 |
| Estimate, 1986.............................................................. | — | — | 8,000 |

## DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1985

| | Appropriation FY 1984 | | Authorized Level FY 1985 | | Budget Estimate FY 1986 | | Increase or Decrease (-) for FY 1986 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Total Changes | | Program Changes | | Other Changes | |
| | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount |
| 1. Customs Forfeiture Fund | — | — | — | 6,000 | — | 8,000 | — | 2,000 | — | — | — | 2,000 |
| Total appropriation, and authorized level, and budget estimate | — | — | — | 6,000 | — | 8,000 | — | 2,000 | — | — | — | 2,000 |
| Permanent positions established | — | — | — | — | — | — | — | — | — | — | — | — |

Customs Forfeiture Fund, United States Customs Service

## SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1986
(Dollars in Thousands)

| | Customs Forfeiture Fund | | | TOTAL | | |
|---|---|---|---|---|---|---|
| | Pos. | Av. Pos. | Amount | Pos. | Av. Pos. | Amount |
| Other Changes: | | | | | | |
| Increased receipts | | | 2,000 | | | 2,000 |
| Total Increases or Decreases 1986 compared with Proposed Authorized Level | — | — | 2,000 | — | — | 2,000 |

## Customs Forfeiture Fund

For necessary expenses of the Customs Forfeiture Fund, not to exceed $8,000,000, as authorized by Public Law 98-473 and Public Law 98-573; to be derived from deposits in the Fund.

## Customs Forfeiture Fund

Prior to FY 1985, the costs of handling each seizure had been deducted from the proceeds if any, of that seizure. However, in instances where proceeds were not sufficient to cover expenses, Customs had to cover the expenses out of its regular operating budget. The latter situation occured frequently -- by the time the seized property was forfeited, expenses for storage and other miscellaneous charges had exceeded the proceeds of the sale. Moreover, the net proceeds from one sale could not be used to offset the losses incurred from another sale.

To remedy this situation, Congress passed legislation that authorized Customs to establish a Customs Forfeiture Fund. Seized and forfeited currency and any proceeds beyond the expenses of seizure and forfeiture of merchandise are deposited into this account. Customs will use these funds for expenses related to seizure; awards to informants; payment of liens related to seizures; equipping forfeited vessels, vehicles and aircraft; payment of claims of "parties of interest to property disposed"; purchase of evidence; and destruction of drugs.

In FY 1985, Customs requested a supplemental appropriation so that it could spend the money on this new forfeiture account.

In FY 1986, as a result of improved management of seized goods, improvement in forfeiture procedures and the depositing of seized currency into this account, it is expected that there will be increased activity, costs and receipts.

Customs Forfeiture Fund, United States Customs Service

## EXPLANATION OF FY 1986 BUDGET INCREASES, DECREASES AND PROGRAM CHANGES

### OTHER CHANGES

Increased receipts........................................$2,000,000

As a result of improved management of seized goods, and improvement in forfeiture procedures it is expected that activities and receipts will increase in FY 1986.

DEPARTMENT OF THE TREASURY
CUSTOMS FORFEITURE FUND, UNITED STATES CUSTOMS SERVICE
STANDARD CLASSIFICATION SCHEDULE
(DIRECT OBLIGATIONS ONLY)

| | Appropriation 1984 | Authorization 1985 | Request 1986 | 1986 Increase/Decrease Over 1985 |
|---|---|---|---|---|
| Total number of permanent positions............ | | | | |
| Average paid employment......................... | | | | |
| **Object Classification:** (Dollars in Thousands) | | | | |
| Personnel Compensation: | | | | |
| Permanent positions......................... | | | | |
| Positions other than permanent.............. | | | | |
| Other personnel compensation................ | | | | |
| Special personal services payments.......... | | | | |
| Total personnel compensation............ | | | | |
| Personnel benefits.............................. | | | | |
| Benefits for former personnel................... | | | | |
| Travel and transportation of persons............ | -- | 66 | 88 | 22 |
| Transportation of things........................ | -- | 60 | 80 | 20 |
| Rent, communication and utilities: | | | | |
| Standard level user charges................. | -- | 42 | 56 | 14 |
| Other rent, communication and utilities................................ | -- | -- | -- | -- |
| Printing and reproduction....................... | -- | -- | -- | -- |
| Other services.................................. | -- | 3,990 | 5,320 | 1,330 |
| Supplies and materials.......................... | -- | 42 | 56 | 14 |
| Equipment....................................... | -- | 1,800 | 2,400 | 600 |
| Lands and structures............................ | | | | |
| Insurance, claims and indemnities............... | | | | |
| Total obligations | -- | 6,000 | 8,000 | 2,000 |
| Unobligated balance | -- | -- | -- | -- |
| Total Appropriation, Authorized Level, and Budget Estimate | | 6,000 | 8,000 | 2,000 |

User Fees at Certain Small Airports, United States Customs Services

## ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1985
(Dollars in Thousands)

| | Perm. Pos. | Avg. Pos. | Amount |
|---|---|---|---|
| 1985 Proposed Supplemental............................................. | — | 1 | 42 |
| Estimate, 1986.......................................................... | — | 1 | 75 |

## DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1985

| | Appropriation FY 1984 | | Authorized Level FY 1985 | | Budget Estimate FY 1986 | | Increase or Decrease (-) for FY 1986 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Total Changes | | Program Changes | | Other Changes | |
| | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount | Av. Pos. | Amount |
| 1. User Fees at Certain Small Airports | — | — | 1 | 42 | 1 | 75 | — | 33 | — | — | — | 33 |
| Total appropriation, and authorized level, and budget estimate | — | — | 1 | 42 | 1 | 75 | — | 33 | — | — | — | 33 |
| Permanent positions established | — | — | — | — | — | — | — | — | — | — | — | — |

# User Fees at Certain Small Airports

Such sums as may be necessary for expenses of the provision of Customs services at certain small airports designated by the Secretary of the Treasury, including expenditures for the salaries and expenses of individuals employed to provide such services, to be derived from fees collected by the Secretary of the Treasury pursuant to section 236 of Public Law 98-573 for each of these airports, and to remain available until expended.

## User Fees at Certain Small Airports, United States Customs Service

### User Fees at Certain Small Airports

The Trade and Tariff Act of 1984 (P.L. 98-573) authorizes the U.S. Customs Service to charge user fees for services at certain small airports where the volume or value of business is insufficient to justify the availability of Customs services. The fee will be equal to the expenses incurred in providing the services.

The legislation authorizes Customs to begin charging a fee for services at the airport located at Lebanon, New Hampshire and four additional locations to be designated by the Secretary of the Treasury. (The governor of the state in which such airport is located must also approve the designation).

The fees which are collected at each airport will be deposited into an account within the Treasury of the United States that is specifically designated for that airport. The funds in the account as provided by appropriation acts, will only be available for expenditures relating to the provision of Customs services at each airport including salaries and expenses of personnel employed to provide such services.

In FY 1985, Customs will provide services for user fees at the airport located in Lebanon, New Hampshire and up to four additional airports as they are designated. In FY 1986, Customs will continue to provide such services to all the designated airports.

## SUMMARY EXPLANATION OF CHAN[illegible]EQUESTED FOR FISCAL YEAR 1986
(Dollar[illegible]housands)

| | User Fees at Certain Small Airports | | | TOTAL | | |
|---|---|---|---|---|---|---|
| | Pos. | Av. Pos. | Amount | Pos. | Av. Pos. | Amount |
| Other Changes: | | | | | | |
| Increased costs for airports serviced | — | — | 33 | — | — | 33 |
| Total Increases or Decreases 1986 compared with Proposed Authorized Level | — | — | 33 | — | — | 33 |

User Fees at Certain Small Airports, United States Customs Service

## EXPLANATION OF FY 1986 BUDGET INCREASES, DECREASES AND PROGRAM CHANGES

OTHER CHANGES

Increased costs and user fees..............................$33,000

In FY 1985 Customs provided services at the airport located in Lebanon, New Hampshire and eventually to four additional airports. FY 1986 reflects full year operating costs and receipts for up to five airports.

Senator **Long**. Do you have any idea why I asked you about Florida first, or Florida specifically compared to the rest of the country?

Mr. **von Raab**. No, sir.

Senator **Long**. Could it be that you are making a greater effort in Florida than anywhere else? The information that I have from a man in Florida is that he says you are making a much greater effort in Florida than anywhere else. And he estimates you are getting about 20 percent. Now, wait a minute—yes, he said about 20 percent in Florida. Outside of Florida, you have to admit you are getting less than 10 percent. So, if you ask me, 90 percent is coming into the United States, aside from Florida. You are making a lesser effort in the area outside Florida. In Florida, where you are making your concentrated effort, you are getting 20 percent. So, his overall estimate would be that you are not intercepting about 85 percent of it.

Mr. **von Raab**. He is wrong.

Senator **Long**. All right. You say he is wrong, and you would put the estimate around 20 percent, or is it 25?

Mr. **von Raab**. We have to deal with specific types of drugs. The marijuana interdiction factor, due to the good efforts of the Coast Guard, is quite high. The cocaine interdiction factor is growing. As a matter of fact, it is over double what it was last year. So, you can't really combine all these different types of narcotics. Otherwise, you come up with a figure that loses its significance. So, I think we have to deal with marijuana, cocaine, and heroin separately. Now, I will admit on the heroin side, we are not doing very well, as that is the most difficult.

Senator **Long**. What percent do you estimate there?

Mr. **von Raab**. I would say less than 5 percent in that case.

Senator **Long**. Less than five?

Mr. **von Raab**. Yes.

Senator **Long**. The point I am getting to is that the highest estimate you can give for your effort is 35 percent in Florida. Now, my information is that this is about an $80 billion business by the criminals involved. Is that a fair thing to say?

Mr. **von Raab**. That seems to be a generally used figure and is probably as good as any.

Senator **Long**. Right. Now, do you have any idea—and I assume that the answer has got to be yes—but can you give me your estimate of what the human value and the economic damage that is involved in $80 billion of these harmful drugs being consumed by the American public?

Mr. **von Raab**. It is massive.

Senator **Long**. You say massive. Can you do a little better than that and give me some indication of how many deaths we think—premature deaths—are being caused by this and what the economic damage is to our effort here in this country?

Mr. **von Raab**. I couldn't off the top of my head, except to say that it is huge.

Senator **Long**. If it touches lives throughout the entire country—I don't believe that my little grandchildren are hooked on it. I know my children are not, but this is a threat to every family in America.

Mr. **von Raab**. I agree.

Senator **Long**. And so, how much per capita is $80 billion of value—225 million divided into $80 billion? That is about $400 worth of drugs per capita coming into this country. And the effort to intercept it, in terms of dollars—just compared to what the commercial value of that stuff is on the street, the dollars that are being spent to buy drugs—is equal to about one-quarter of 1 percent of the value of drugs on the street. Whose idea is it that we should make that small an effort against something that is that devastating to our country and our people? Whose estimate is this that that is about the limit of our effort that we want to make?

Mr. **von Raab**. The number there is a function of the budget process which is a cooperative effort between the Congress and the administration.

Senator **Long**. Did you ask for more than that? Did you ask Mr. Stockman and his people to approve more, to approve a larger amount?

Mr. **von Raab**. I believe our request was slightly in excess of what we were given.

Senator **Long**. Slightly. About how much? Can you give me some idea?

Mr. **von Raab**. We submitted a budget of approximately $700 million.

Senator **Long**. $700 million?

Mr. **von Raab**. Yes.

Senator **Long**. For this or for the overall?

Mr. **von Raab**. For the overall budget.

Senator **Long**. All right. According to this, you say you are putting about half of it—and you estimate $350—that would sound as though you got almost exactly what you asked for. You estimated about half of the money being made available to you was for the fight against narcotics and other harmful drugs. Do you estimate that to be $350 million? And now you tell me that your submission was $700 million.

Mr. **von Raab**. We have a budget for the air program, which is $60 million, we have the salaries and expenses budget, which is $639 million. We requested $699 million for salaries and expenses, of which we got $639 million.

Senator **Long**. Now, I was led to believe somewhere that the Congress had appropriated more money for this fight on drugs than you people have spent. Is that correct? I just don't know.

Mr. **von Raab**. We have spent——

Senator **Long**. Someone told me that Congress has appropriated more money for this fight on drugs than you are spending.

Mr. **von Raab**. Since I have been Commissioner we have spent more or less our budget appropriation.

Senator **Long**. The red light has been up for some time, so I won't ask any more questions at this time. I think I might like to ask some more later on.

Senator **Danforth**. Senator Bradley?

Senator **Bradley**. Thank you, Mr. Chairman. Mr. von Raab, let me ask you: Were you actively involved in the negotiations with OMB?

Mr. **von Raab**. No, I was not.

Senator **Bradley**. You were not?

Mr. von **Raab**. No.

Senator **Bradley**. You were not actively involved in trying to get what the Customs Service itself thought it needed to enforce the laws of this country?

Mr. von **Raab**. No; the Treasury Department deals with OMB, not the Customs Service. We are a bureau of the Treasury Department.

Senator **Bradley**. And that is why you didn't know how much you requested for your own service, is that right?

Mr. von **Raab**. No, our request to the Treasury Department was approximately $700 million. We submit our request to the Department and they then submit a request to OMB.

Senator **Bradley**. Yes. I just found it curious that you didn't know that.

Mr. von **Raab**. I knew it. I just didn't want to give you an inaccurate figure. It was actually $699,546,000.

Senator **Bradley**. All right. Now, if we could get to these 351 positions. You said this would not in fact affect enforcement because 145 are management centers. Is that right?

Mr. von **Raab**. Of the 887—it is actually 887.

Senator **Bradley**. I am talking about the 351 inspection and control.

Mr. von **Raab**. That is right.

Senator **Bradley**. 145 were management centers, you said earlier to the question asked by Senator Bentsen.

Mr. von **Raab**. That is right.

Senator **Bradley**. You said then 111 were inspectors reimbursed by the local municipality, according to this dream.

Mr. von **Raab**. Proposed to be reimbursed.

Senator **Bradley**. The proposed dream. Right. The question then is: What happens if they aren't reimbursed? Are you proposing to eliminate the 111 inspectors?

Mr. von **Raab**. As I answered to the House, we will ensure that they stay on the job, and we will fund those positions from within the Customs Service budget.

Senator **Bradley**. And then the other 95—who are they?

Mr. von **Raab**. Those are also people in non-frontline positions.

Senator Bradley, So, of the 351, only 111 are online?

Mr. von **Raab**. Yes.

Senator **Bradley**. And regardless of whether you get the expenses reimbursed, you are going to keep them online?

Mr. von **Raab**. Yes.

Senator **Bradley**. And what other part of the personnel would you then eliminate?

Mr. von **Raab**. We would probably try to take deeper cuts in the administrative areas.

Senator **Bradley**. Deeper cuts in the administrative area. OK. Let me express my concern that this is a rather short sighted policy, particularly if we are in a period when we have some rising protectionist pressure. The minimum that you have to be able to do is enforce the laws that are on the books, and if you are going to cut personnel, if you are going to cut support personnel that are important, you are not going to be able to enforce the laws that are on the books. Would you explain what is the bypass procedure that Customs officers follow?

Mr. **von Raab**. Yes. A number of events are involved with commercial importation. There is a physical inspection and a documentary inspection. The physical inspection is performed by an inspector. The documentary inspection is performed by an import specialist. Under the bypass system documentary review, by what we call a ministerial group, is speeded up and then it is audited afterwards.

Senator **Bradley**. Yes. In fact, the bypass procedure is essentially Customs officers selectively checking only about—what?—40 percent of the imports? Is that correct?

Mr. **von Raab**. Once again, you have got to take the particular line. For example, we review all textile and steel documents. We also review documents related to those lines of commodities that are a risk or serious problem in terms of possible violations. Certain categories are given only cursory review because no duty is required. These types of documents are submitted for statistical purposes only. To say 40 percent is to mix apples and oranges.

Senator **Bradley**. So, you can come before the committee today and say that you are enforcing the laws, even though you admit before the committee that in many cases you never check formal entries. You spot check—40 or 50 percent of the times you spot check. In 1972 you had about 1,300 import specialists for on-site inspection, and this year you have about 875, even though the formal entries of imported merchandise have gone from 3 million to 6 million. Now, it is just not plausible, to me at least, that you are going to be able to enforce anything.

Mr. **von Raab**. I don't accept your characterization of what we are doing. I said that we are doing a full documentary inspection of all of those lines of commodities that require that. There are certain submissions made to the Customs Service accompanying importations that do not require a complete 100-percent review. If we were to do that, I think it would be a waste of our manpower. So, I cannot agree with the conclusions that you have drawn.

Senator **Bradley**. Let's take textiles as an example. And let's move from enforcement to information. How do you explain that the industry asserts that about 50 percent of the textile market is composed of imports and the Commerce Department asserts that it is 26 percent? Now, that should be information that should be fairly well determinable through the amount of imports that enter, if indeed you are checking every one of them. Now, are you asserting that you have told the Commerce Department it is 26 percent?

Mr. **von Raab**. We only provide Commerce with the raw data. Commerce takes our data and processes it.

Senator **Bradley**. And you are saying there is no entry point in this country where textiles from another country enter that there isn't an inspector who inspects? Is that what you are asserting?

Mr. **von Raab**. That is correct.

Senator **Bradley**. That is a very strong statement, and I hope that you will be able to back it up.

Senator **Danforth**. Mr. von Raab, let me ask you to clarify your idea of reimbursement. First, it is my understanding that there is now a reimbursement concept which is in place. As you pointed out, there are circumstances where the Customs Service is reimbursed for overtime. Is that right?

Mr. VON RAAB. Mr. De Angelus will respond to this question?

Mr. DE ANGELUS. Senator, if I may, there are a number of activities for which the Customs Service is reimbursed. The Department of Agriculture pays over $2 million for airport inspections. There is approximately $42 million worth of reimbursable overtime under the law of 1911 for which our inspectors are paid for services outside of normal working hours. We are also proposing 111 inspector positions be reimbursed at what we call convenience ports, or low volume ports, where our employees are less productively employed.

Senator DANFORTH. That is your proposal?

Mr. DE ANGELUS. That is one of our proposals. Yes, sir.

Senator DANFORTH. Yes. Let me ask you this: Didn't we last year pass a bill which provided for reimbursement in certain ports in New Hampshire?

Mr. DE ANGELUS. Yes. Exactly.

Senator DANFORTH. Where the Customs Service would not otherwise be operating, or handling only a very low volume. Senator Humphrey was pushing this idea.

Mr. DE ANGELUS. That is the prototype, if you will, of the legislation——

Senator DANFORTH. Right. The idea was that this is not a place where the Customs Service would ordinarily be, and there was a special need that was perceived in New Hampshire, and Senator Humphrey therefore took the position that if we pay for it, can we get Customs people in our State. And the answer was provided by legislation, and it was yes.

Mr. DE ANGELUS. Right. That is correct, and Allentown, PA, is another example.

Senator DANFORTH. Now, just to give you hypotheticals and not real-life cases, but just a hypothetical situation, let's suppose that in Joplin, MO—let's suppose that Ozark Airlines decided that it wanted to have international flights from Joplin. There are now no international flights from Joplin, but they thought that once a week they could get enough people together from southwest Missouri or Kansas or Oklahoma, or wherever, put them in an airplane, and send them over to London. There is now no service. They want a Customs person or two or three to be in Joplin at least once a week. They approach you and you say, wait a second, we have a budget. We only have so many people. We have people down in San Diego or wherever and we can't redeploy them. If we put somebody in Joplin, will you pay for it? They say yes, and what you want is authorization to therefore hire somebody on a reimbursed basis. Is that right?

Mr. DE ANGELUS. That is correct. However, with respect to existing ports, we require authorizing legislation to be able to have the same approach.

Senator DANFORTH. Yes. In other words, you want to transform some ports that are now being paid for by the taxpayer into reimbursed ports.

Mr. VON RAAB. That is correct.

Senator DANFORTH. That is, to me, more questionable, and I think that is the problem that Senator Baucus was raising. Let me ask you another type of situation: Let's suppose that in, say, Moberly there is a factory which has to import a product from abroad on a daily basis. It has to get it quickly. It has to fly it in somehow, and nobody else would have any use for the Customs Service in Moberly, but this one factory absolutely needs it. Your position would be that it is unreasonable to have the taxpayer pay the cost of basically operating a factory, and therefore, you would have a Customs person there provided that the business in question could reimburse the service. Is that right?

Mr. De Angelus. Yes, sir.

Senator Danforth. So, it is not just a reimbursement by State governments that you are after. It is reimbursement by an airline. It is reimbursement by a business. It is reimbursement by a port authority or an airport authority or whoever wants to make a deal with the Customs Service. You want to extend your operation provided that you don't have to take it out of your budget. Is that right?

Mr. De Angelus. That is right.

Senator Danforth. All right. Now, with respect to existing ports now being funded out of your normal appropriation, what criteria do you have if you develop them? What criteria would there be for determining what ports would only remain open if they were reimbursed?

Mr. De Angelus. Generally speaking, the criteria are those that would be applied to an application for a new port. More specifically, I would be happy to provide for the record what they are in each case. They are rather detailed.

[Mr. De Angelus' prepared report follows:]

### Reimbursable Ports Initiative

Under a reimbursable port concept, those locations not meeting Customs established minimal work load criteria of either 2,500 formal entries, 350 cargo vessel arrivals, 150,000 vehicle arrivals or 2,000 scheduled international aircraft arrivals per year, would convert to operating on a reimbursable basis. Congressional action, however, would be necessary in order for Customs to operate under this concept and to collect the cost of providing service. At the present time, there are 121 seaports 40 interior ports, 61 northern border ports, and 5 southern border ports which are potential reimbursable ports. Attached is a list of these locations for your information.

## POTENTIAL REIMBURSABLE PORTS

### Seaport

1. BATH, ME
2. BAR HARBOR, ME
3. ROCKLAND, ME
4. JONESPORT, ME
5. PORTSMOUTH, ME
6. BELFAST, ME
7. SEARSPORT, ME
8. GLOUCESTER, MA
9. NEW BEDFORD, MA
10. PLYMOUTH, MA
11. FALL RIVER, MA
12. SALEM, MA
13. PROVINCETOWN, MA
14. NEWPORT, RI
15. MELLVILLE, KY
16. NEW HAVEN, CT
17. NEW LONDON, CT
18. CAPE VINCENT, NY
19. CHESTER, PA
20. PAULSBORO, NJ
21. CAMDEN, NJ
22. GLOUCESTER, CITY, NJ
23. MARCUS HOOK, NJ
24. ANNAPOLIS, MD
25. CAMBRIDGE, MD
26. CRISFIELD, MD
27. ASHLAND, WI
28. SUPERIOR, WI
29. SILVER BAY, WI
30. MARINETTE, WI
31. GREEN BAY, WI
32. MANITOWOC, WI
33. SHEBOYGAN, WI
34. SAGINAW-BAY CITY FLINT, MI
35. ESCANABA, MI
36. MARQUETTE, MI
37. ALGONAC, MI
38. MUSKEGON, MI
39. GRAND HAVEN, MI
40. ROGERS CITY, MI
41. DETOUR, MI
42. MACKINAC ISLAND, MI
43. PRESQUE ISLE, MI
44. ALPENA, MI
45. PERRYSBURG, MI
46. EAST CHICAOG, IL
47. GARY, IN
48. ERIE, PA
49. SANDUSKY, OH
50. FAIRPORT, OH
51. HURON, OH
52. LORAIN, OH
53. CAPE CHARLES, VA
54. REEDVILLE, VA
55. HOPEWELL, VA
56. BEAUFORT-MOREHEAD CITY, SC
57. GEORGETOWN, SC
58. BRUNSWICK, GA
59. FERNANDINA BEACH, FL
60. GREEN CLOVE SPRINGS,FL
61. BOCA GRANDE, FL
62. PORT CANAVERAL, FL
63. PANAMA CITY, FL
64. PENSACOLA, FL
65. KEY WEST, FL
66. FORT PIERCE, FL
67. ALEXANDRIA, VA
68. PORT ST. JOE, FL
69. GULFPORT, MS
70. PASCAGOULA, MS
71. APALACHICOLA, FL
72. CARRABELLE, FL
73. MORGAN CITY, LA
74. PORT SULPHUR, LA
75. DESTREHAN, LA
76. GREENVILLE, MS
77. AVON, MS
78. ST. ROSE, LA
79. GOOD HOPE, LA
80. VICKSBURG, MS
81. LAKE CHARLES, LA
82. TEXAS CITY, TX
83. FREEPORT, TX
84. PORT LAVACA, TX
85. PORT SAN LUIS, CA
86. EL SEGUNDO, CA
87. VENTURA, CA
88. PORT HUENEME, CA
89. CAPITAN, CA
90. MORRO, CA
91. EUREKA, CA
92. MONTEREY, CA
93. ALAMEDA,CA
94. CROCKETT, CA
95. MARTINEZ, CA
96. SELBY, CA
97. SAN JOAQUIN RIVER,CA
98. SAN PABLO BAY, CA
99. CARQUINEZ STRAIT, CA
100. SUISUN BAY, CA
101. NEWPORT, OR
102. COOS BAY, OR
103. KALAMA, WA
104. ABERDEEN-HOQUIAM, WA
105. FERRY, WA.
106. KENMORE AIR HARBOR,WA
107. NEAH BAY, WA
108. JUNEAU, AK
109. KETCHIKAN, AK
110. SKAGWAY, AK
111. WRANGLE, AK
112. DALTON CACHE, AK
113. VALDEZ, AK
114. PETERSBURG, AK
115. SITKA, AK
116. PELICAN, AK
117. SAND POINT,AK
118. KODIAK, AK
119. HILO, HI
120. KAHULUI, HI
121. NAWILIWILI-ALLEN, HI

### INTERIOR

1. ST.ALBANS,VT
2. BURLINGTON, VT
3. SPRINGFIELD, MA
4. WORCHESTER, MA
5. LAWRENCE, MA
6. UTICA, NY
7. WILKES-BARRE,PA
8. HARRISBURG, PA
9. GREAT FALLS, MT
10. BUTTE, MT
11. RACINE,WI
12. PEORIA, IL
13. EVANSVILLE, IN
14. LAWRENSBURG, IN
15. OWENBORO, KY
16. ST. JOSEPH, MO
17. SPRINGFIELD, MO
18. CHARLESTON, WV
19. DURHAM, NC
20. REIDSVILLE, NC
21. COLUMBIA, SC
22. BIRMINGHAM, AL
23. HUNTSVILLE, AL
24. LITTLE ROCK, AK
25. CHATTANOOGA, TN
26. KNOXVILLE, TN
27. AMARILLO, TX
28. LUBBOCK, TX
29. AUSTIN, TX
30. LAS VEGAS, NV
31. FRESNO, CA
32. STOCKTON, CA
33. SACRAMENTO, CA
34. REDWOOD CITY,CA
35. RENO, NV
36. SPOKANE WA
37. FAIRBANKS, AL
38. LAS CRUCES, NM
39. FT. MYERS, FL
40. BOISE, ID

### NORTHERN BORDER

1. LIMESTONE,ME
2. BRIDGEWATER,ME
3. MILLTOWN,ME (station under Calais)
4. FOREST CITY, ME (station under Houlton)
5. MONTICELLO,ME (station under Houlton)
6. ORIENT, ME (station under Houlton)
7. EASTON,ME (station under Ft.Fairfield)
8. HAMLIN, ME (station under Van Buren)
9. ESCOURT, ME (station under Ft. Kent)
10. COBURN GORE,ME (station under Jackman)
11. ST.AURELIE,ME (station under Jackman)
12. DAAQUAM,ME (station under Jackman)
13. ST.PAMPHILE,ME (station under Jackman)
14. CAANAN,VT (station under Beecher Falls)
15. PITTSBURGH, NH (station under Beecher Falls)
16. BEEBE PLAIN,VT (station under Derby Line)
17. E. RICHFORD,VT (station under Richford)
18. PINNACLE RD.,VT (station under Richford)
19. W.BERKSHIRE,VT (station under Richford)
20. ALBURG,VT (area port with Highgate Springs)
21. ALBURG SPRINGS,VT (station Highgate Springs/Alburg)
22. MORSES LINE,VT (station under Highgate Springs/ Alburg)
23. CANNONS CORNERS,NY (station under Champlain)
24. MOOERS,NY (station under Champlain)
25. CHATEAUGAY,NY (area port Trout River)
26. CHURUBUSCO,NY (station under area port Trout River)
27. JAMIESONS LINE,NY (station under area port Trout River)
28. Turner, MT
29. Porthill,ID
30. SCOBEY,MT
31. WILDHORSE,MT (station under Sweetgrass)
32. WHITETAIL,MT
33. OPHEIM,MT
34. PIEGAN,MT
35. CHIEF MTN.,MT (station under Piegan)
36. MORGAN,MT
37. WHITLASH,MT
38. TRAILCREEK,MT (station under Roosville)
39. ST. JOHN,ND
40. HANSBORO,ND
41. SARLES,ND
42. MAIDA,ND
43. HANNAH,ND
44. WALHALLA,ND
45. ROUSEAU,ND
46. BAUDETTE,MN
47. CARBURY,ND
48. FORTUNA,ND
49. AMBROSE,ND
50. NOONAN,ND
51. SHERWOOD,ND
52. ANTLER,ND
53. WESTHOPE,ND
54. ALGONAC,MI (station under Port Huron)
55. ROBERTS LANDING,MI (station under Port Huron)
56. CRANE LANE, MN (station under Duluth)
57. WILLOW CREEK,MT
58. NIGHTHAWK, WA
59. DANVILLE,WA
60. BOUNDARY,WA
61. METALINE FALLS,WA

### SOUTHERN BORDERS

1. SASABE,AZ
2. LOS EBANOS FERRY,TX
3. AMISTAD DAM,TX
4. FALCON DAM,TX
5. MORLEY GATE,AZ

Senator **Danforth**. I think that is where you are going to have the biggest problem. I mean, maybe there should be some grandfathering proposal. I don't know. Senator Bentsen?

Senator **Bentsen**. Thank you, Mr. Chairman. Commissioner, I note that you are talking about closing quite a number of districts. You are talking about losing the appraisement center for Brownsville, Hidalgo, San Antonio, Port Arthur, and Houston. Now when you are talking about those along the Rio Grande or when you are talking about Port Arthur, you are talking about areas that are in serious economic trouble. And yet, these are important entries, and if you make it more difficult for them to expedite the entry of products at those points, you obviously put them at a disadvantage with other entry ports. It seems to me that you give an advantage to another one where a lot of that trade might move. Last year I strongly opposed the consolidation of the districts between Dallas and Houston. Both Houston and Dallas are major ports. and the Customs Service finally understood that. But now, you are coming back from the other direction, and saying let's consolidate Houston into Dallas. I don't think that is practical either. I strongly oppose that kind of a situation. This would mean that Houston, the second largest port in the country, insofar as foreign products imported would have no district office or district director. This would create a serious problem of delay, and create additional costs for local shippers. I think it would be a most serious mistake. Let me give you an example of what we are talking about. I think you very wisely did not consolidate Dallas into the Houston district last summer. I think that is correct, but here you have a situation with 102,000 entries in Houston; values of commodities of $20.3 billion; duties collected in Houston at $407 million; and one of the major ports in the country. Forthermore, imports by sea require more attention by Customs than commodities imported by air. You have 3.5 million tons of steel directly discharged by direct conveyance. I understand it would be very difficult to discharge this steel without having adequate numbers of import specialists at the Houston port. I think it would have a tremendous negative economic impact on that area. It would be a very serious mistake. Now, I would like to hear your comments.

Mr. **De Angelus**. Senator, if I may, there are a number of misconceptions in your question. We have consolidated a number of ports in the past where there were import specialists. It does not have a negative effect on imports through that port. Earlier this morning——

Senator **Bentsen**. I must tell you that every report that I get from people that are involved in the business back there tell me they think it will have a detrimental effect, a very serious one.

Mr. **De Angelus**. I know that they believe that, Senator, but it is just not correct. Twenty-six years ago I was what we now call import specialists, then called Customs examiners. I think I know something about that side of our business and its impact on the import community. Earlier you mentioned that we should redo the Stover Study of 20 years ago. The Stover Study was a very good study, and it set up a principle in Customs of a four-tier level of operations—a port of entry, a district which is the last operational oversight of the port of entry, a regional headquarters to administer Customs in a geographic area, and Customs headquarters to provide policy direction and priority direction on a nationwide basis. The basic activity where an importer or a passenger is affected is the port of entry, and except for the 111 positions for which we propose reimbursement, the port of entries do not change. That is where the goods move freely and the people move freely, irrespective of whether or not an old Customs examiner—or what we call import specialist today—is there. Last week we took the import specialist out of Sweet Grass, MT, and I believe if you talk to the people in Sweet Grass and you talk to the importers, there has been zero adverse impact on imports through Sweet Grass, MT. We removed the import specialist from Pittsburgh, PA, and I believe if you talk to the people in Pittsburgh, you will find there has been absolutely zero negative effect——

Senator **Bentsen**. I am not talking to you about Sweet Grass, MT—with all due respect to my friend. What we have here is a misconception on the part of the Customs Service. We are talking about Dallas and Houston, two of the largest cities in the United States. I have the distinction of representing 3 of the 10 largest cities in the United States, you have previously agreed that we should not merge Dallas and move it into the Houston District office. And then you turn around and say, OK, now we will move the Houston office to Dallas. I don't think either one of those plans is right. I think when you are talking about 2 of the 10 largest cities in the United States that they are certainly justified in having a district office and having all that goes with it. Let me give you an example. You have 102,000 entries in Houston as opposed to 61,000 entries in Dallas. Values of the commodities: $20 billion versus $1.5 billion in Dallas. Duties collected: $407 million in Houston, $107 million in Dallas. Yet, last year you agreed with us that we shouldn't take Dallas and move it into Houston. Now, you say, OK, let's merge Houston with Dallas, despite those numbers.

Mr. **De Angelus**. Senator, what we have is a staff proposal that we have not yet acted on. We are getting ready to evaluate it in the next week because we have to make some decision. What I tried to explain is that the basic activity is the port of entry. What we are saying and what the Grace Commission recommended was only 25 districts for us. They recommended only 6 appraisement centers in the United States. We are proposing approximately 30. They saw that these type activities are not necessary to the free flow of goods and people. What we are proposing is to reduce our administrative overhead to an absolute minimum. To put it where it can be most efficiently and effectively employed on a 100-percent basis rather than to have the antiquated system of, in effect, a collector in every port.

Senator **Bentsen**. A collector in every port. I am not talking about a collector in every port. I am talking about the port of Houston, which has an international airport; five seaports, two free trade zones—all of them in that area.

Mr. **De Angelus**. Senator, those things would not be affected either way——

Senator **Bentsen**. That is not the story I get, and that isn't at all what I hear from people that are in the business in Texas who will be subjected to a change like this. And I strongly resist it; I don't agree with it.

Mr. **De Angelus**. I understand that, Senator. I just ask you to respect my professional opinion that, with regard to Customs, you can administer Customs and they will not be adversely affected.

Senator **Bentsen**. Thank you, Mr. Chairman.

Senator **Danforth**. Senator Baucus.

Senator **Baucus**. Thank you, Mr. Chairman. For a person who wants to deal with a Customs agent in New York—is it convenient for him to do so?

Mr. **De Angelus**. I am sorry. I don't understand.

Senator **Baucus**. The question is: Is it more convenient for somebody in New York or Los Angeles or San Francisco or Seattle—or one of the major ports in this country—to deal with the Customs Service, or is it more convenient for somebody in Sweet Grass or Butte, or Great Falls, MT to deal with the Customs Service?

Mr. **von Raab**. I would guess that it is more convenient in Sweet Grass because the people in Sweet Grass are probably more agreeable than they are in the other parts of the country.

Senator **Bradley**. You just made 19 enemies on this committee. [Laughter.]

Senator **Baucus**. The point is that I think your term "ports of convenience" is a misrepresentation of the purpose behind the proposal because the people in New York City and other States, sure, they could conveniently use those ports and the Customs agents are conveniently there because that is why they are doing business. The same is true of anyone who deals with a Customs agent, whether traveling from the United States or to the United States. And it seems to me that what you are doing is you are trying to use—to use a euphemistic term—"convenience" to mask your intention to close poor ports.

Mr. **von Raab**. You are speaking here of the reimbursable aspect?

Senator **Baucus**. That is correct.

Mr. von Raab. I am sorry. I was confusing it with the centralization issue.

Senator **Baucus**. I am talking about the reimbursable port proposal.

Mr. **von Raab**. As I said, there is a larger proposal that will be forwarded which would propose that a user fee concept be applied to a large number of the Customs activities of which this reimbursable approach would only be a part. It may actually be subsumed in the larger package.

Senator **Baucus**. But your larger potential package will deal with large volume ports as well?

Mr. **von Raab**. Yes.

Senator **Baucus**. Can you give me some idea what that proposal is going to be?

Mr. **De Angelus**. Senator, if I may, what we are proposing is that——

Mr. **von Raab**. If I can just interject, this has not been forwarded through the normal processes. Our assumption is that it will pass through OMB, but I have to reserve OMB's right to say that this is not approved by them.

Mr. **De Angelus**. We are still formulating the details of the proposal, but OMB has notified the Congress that user fees are proposed to be applied for the Customs Service. The Senate Budget Committee, I am told, has indicated that over $473 million out of Customs appropriations for fiscal year 1986 should come from user fees. If you look at Customs staffing over the years and the national financial situation, it is unlikely, even though more assets are being demanded in Sweet Grass, Seattle, Los Angeles, and Laredo that funds can be provided. Over the past 4 years people have come to us and said they would pay for those services. Until Senator Humphrey passed his bill, we did not have any legal mechanism to collect money from people who wanted to pay for the services.

Senator **Baucus**. I can see your applying that principle to new services. I can understand that. If somebody wants a new Customs Service along the lines as suggested by the chairman of the subcommittee, I can see that. That makes sense, but what I can't see is trying to apply this proposal to existing services which in many areas will result in no service whatsoever. That is a problem that I have, particularly when we are trying to encourage trade, not discourage trade. I am sorry, but my time is up.

Mr. **von Raab**. May I make just one comment on that?

Senator **Baucus**. Very briefly, if you could, please.

Mr. **von Raab**. One of the problems Customs has is reallocating its resources. Ports increase or decrease as the trading patterns change. There is often a request for new service. For example, LAX, Oakland, Seattle, St. Louis—any number of ports that have existing services—need more service. We require a mechanism for relating Customs resources to the traffic or workload of the area. Today it is very difficult for us to address these needs.

Senator **Baucus**. What do you think Canada is going to do if we impose a user fee on commerce from Canada to the United States? Do you think Canada will put a user fee on commerce from the United States to Canada?

Mr. **von Raab**. I don't know what Canada would do.

Senator **Baucus**. What do you think other countries are going to do?

Mr. **von Raab**. There already is a $3 tax, you know.

Senator **Baucus**. Don't you think that the more we apply user fees on commerce the more other countries are going to do the same thing? And don't you think that that, in effect, discourages commerce?

Mr. **von Raab**. Other countries——

Senator **Baucus**. And don't you think that that, in effect, also harms the American economy?

Mr. **von Raab**. Other countries do this now.

Senator **Baucus**. I am talking about the direction. You are going in the direction of more fees, more user fees. I am just telling you the consequence of that is diminished trade, not more trade.

Mr. **von Raab**. More fees but lower taxes.

Senator **Baucus**. One other question I have is about your statement that you don't deal directly with OMB? Are you saying that you don't talk to OMB?

## DEPARTMENT OF THE TREASURY
## USER FEES AT CERTAIN SMALL AIRPORTS, UNITED STATES CUSTOMS SERVICE
## STANDARD CLASSIFICATION SCHEDULE
## (DIRECT OBLIGATIONS ONLY)

| | Appropriation 1984 | Authorization 1985 | Request 1986 | 1986 Increase/Decrease Over 1985 |
|---|---|---|---|---|
| Total number of permanent positions | -- | -- | -- | -- |
| Average paid employment | -- | 1 | 1 | -- |
| *Object Classification:* (Dollars in Thousands) | | | | |
| Personnel Compensation: | | | | |
| Permanent positions | | 10 | 18 | 8 |
| Positions other than permanent | | | | |
| Other personnel compensation | | 16 | 29 | 13 |
| Special personal services payments | | | | |
| Total personnel compensation | | 26 | 47 | 21 |
| Personnel benefits | | | | |
| Benefits for former personnel | | | | |
| Travel and transportation of persons | | 13 | 23 | 10 |
| Transportation of things | | | | -- |
| Rent, communication and utilities: | | | | |
| Standard level user charges | | | | |
| Other rent, communication and utilities | | 3 | 5 | 2 |
| Printing and reproduction | | | | |
| Other services | | | | |
| Supplies and materials | | | | |
| Equipment | | | | |
| Lands and structures | | | | |
| Insurance, claims and indemnities | | | | |
| Total obligations | | 42 | 75 | 33 |
| Unobligated balance | | -- | -- | -- |
| Total Appropriation, Authorized Level, and Budget Estimate | | 42 | 75 | 33 |

Mr. von **Raab**. I do talk to OMB, but in terms of the negotiation of the budget, that is done by the Assistant Secretary for Administration of the Treasury Department.

Senator **Baucus**. Did you request a bigger budget or smaller budget through your process?

Mr. von **Raab**. A bigger budget.

Senator **Baucus**. What did you request of somebody in Treasury?

Mr. von **Raab**. We requested about $60 million more.

Senator **Baucus**. How many more?

Mr. von **Raab**. About $60 million.

Senator **Baucus**. Six-zero or sixteen?

Mr. von **Raab**. Sixty—six-oh—more.

Senator **Baucus**. 60 more, and somebody in Treasury—who was it in Treasury that said no? What department is it?

Mr. von **Raab**. The Treasury Department.

Senator **Baucus**. But who in Treasury? What office in Treasury?

Mr. von **Raab**. Most probably the then-Deputy Secretary, Tim McNamar.

Senator **Baucus**. Did you talk with this person?

Mr. von **Raab**. Yes.

Senator **Baucus**. So, you know who the person is.

Mr. von **Raab**. Yes. He was the one who made the decision.

Senator **Baucus**. Who is the person you talked to?

Mr. von **Raab**. Tim McNamar.

Senator **Baucus**. Mr. McNamar?

Mr. von **Raab**. Right.

Senator **Baucus**. And he is the person who disagreed with you and overruled you and said your submission had to be $60 million less. Is that correct?

Mr. von **Raab**. No, that is not quite correct. Treasury submitted a budget less than the one we requested, but OMB reduced Treasury's request, so there was a double reduction that took place. I don't know who made the decision at OMB.

Senator **Baucus**. Did you try to talk directly with OMB?

Mr. von **Raab**. No, that is not the scheme of things.

Senator **Baucus**. Did you try to?

Mr. von **Raab**. No, I didn't try to.

Senator **Baucus**. Were you told not to?

Mr. von **Raab**. It is acknowledged that it is not my role to bypass the Treasury Department and deal directly with OMB on these matters.

Senator **Baucus**. All right. I have no more questions. Thank you.

Senator **Danforth**. Senator Long.

Senator **Long**. I want to just get back to what we were discussing before. Could you give me your estimate of what percent of marijuana do you think you are intercepting? Coming into this country?

Mr. von **Raab**. Around 30 percent.

Senator **Long**. So, you think you are intercepting 30 percent of marijuana coming in on a nationwide basis?

Mr. von **Raab**. This is the Customs and the Coast Guard, by the way. It is not just Customs.

Senator **Long**. And what percent of that do you estimate the Customs is intercepting?

Mr. von **Raab**. I would have to give you that for the record.

**Senator Long.** I would like to know what the overall effort is doing, and that is the basic question I would like you to give me the answer to here if you know it.

**Mr. von Raab.** I will provide that for the record.

[Mr. von Raab's prepared report follows:]

### 1984 MARIJUANA SEIZURES

*National.*—2,926,192.2 pounds=10 percent of the national threat.

*Southeast region.*—2,303,297.4 pounds=10.9 percent of the regional threat (21,144,600) and 7.5 percent of the national threat. This figure is 78.7 percent of all national marijuana seized.

*Florida.*—1,925,875.5 pounds=9.1 percent of the regional threat and 6.3 percent of the national threat seized. This figure is 65.8 percent of the national total marijuana seized and 83.6 percent of the regional total marijuana seized.

### 1985 MARIJUANA SEIZURES

(AS OF APRIL 18, 1985)

*National.*—576,755 pounds=2 percent of the national threat.

*Southeast region.*—453,543 pounds=2.3 percent of the regional threat (19,798,200 lbs) 78.7 percent of the national marijuana total seized.

*Florida.*—196,227=1 percent of regional threat and .64 percent of national threat (34 percent of the national marijuana seized and 43 percent of regional marijuana seized).

**Senator Long.** All right. Now, what percent of the cocaine do you estimate you are intercepting?

**Mr. von Raab.** I estimate we are intercepting around 30 percent.

**Senator Long.** So, you estimate you are intercepting around 30 percent of the cocaine and 30 percent of the marijuana?

**Mr. von Raab.** I am sorry, 25 percent of the cocaine, nationally.

**Senator Long.** So, nationally you are saying 25 percent?

**Mr. von Raab.** Right.

**Senator Long.** OK. Now, you have indicated that you think you are only intercepting 5 percent of the heroin?

**Mr. von Raab.** Yes.

**Senator Long.** Could you explain why you estimate such a low figure on heroin?

**Mr. von Raab.** Because our seizures were about 700 pounds, which is approximately 5 percent of the threat estimate.

**Senator Long.** You stated here that in 1984 the value of narcotics and other dangerous drugs was about $1 billion. We believe the fiscal year 1986 budget request will provide Customs—this is what I am impressed with—for the first time with sufficient resources to begin challenging the growing air drug smuggling problem. For the first time. Now, that whole thing is such a serious problem to some of us that I went down to the White House with a group of other Senators some time ago, and we urged the President to have a much stronger fight on crime, and we wanted to do everything we could to help. These are all Democratic Senators. I am sure an equal number of Republicans would have gone if asked. And one matter we discussed was the flow of narcotics into the United States, and I am amazed to see that here you are, in 1985, asking for the first time not to stop it, but to challenge it.

**Mr. von Raab.** That is the air smuggling.

**Senator Long.** Yes, to challenge the air smuggling. Now how long has the air smuggling been going on?

Mr. von **Raab**. Probably as long as people were able to fly. When I came into the Customs Service, there was virtually no air program. There was no effort of any consequence to prevent smuggling by air. We had a ragtag air force consisting of a bunch of beat-up old one-engine planes. Over the years we have developed and upgraded that air force, and we believe the fiscal year 1986 budget will reflect a level of air assets that will very effectively challenge the air smuggler.

Senator **Long**. Now, I am just looking at your statement here. My impression is that this matter was a serious problem when President Reagan came in, and I am not here to excuse anybody—him or me or you or anybody else—but let me ask you this: Was it not a serious problem when President Reagan took the oval office?

Mr. von **Raab**. It was. It is a more serious problem now because the smugglers are producing more drugs to bring into the United States. In relative terms cocaine production was much less 3 or 4 years ago. It has increased significantly over the past 3 years, and is a much more serious problem today.

Senator **Long**. Now, according to your estimates, 70 percent of the marijuana is coming on through, 75 percent of the cocaine is getting through, and 95 percent of the heroin is getting through. Do you feel a sense of urgency to reduce those numbers?

Mr. von **Raab**. Yes, and we are trying.

Senator **Long**. Can you——

Mr. von **Raab**. We have been reducing those numbers.

Senator **Long**. If that is the case, why shouldn't we be making a greater effort than you are asking here?

Why shouldn't we be making a greater effort than this budget requests? I assume that you are not satisfied to have all that coming in—95 percent of the heroin, 75 percent of the cocaine—and this is your estimate. I happen to think that you are overly optimistic, but 70 percent of the marijuana? Why shouldn't we be making a greater effort against that?

Mr. von **Raab**. We are making greater efforts each month. The question is how quickly can you increase your effort and still be well managed and professional.

Senator **Long**. Would you object if we on this committee take steps either directly or indirectly to interrogate the people you have in the field to see, just on a confidential basis, what they think about this effort?

Mr. von **Raab**. Not at all, confidential or otherwise. However you would like to do it, I would support that.

Senator **Long**. Because frankly the information I have is that people express fears that they will be fired for saying what they honestly believe but that they really feel that this is a very pitifully inadequate effort. Now, I would like to see if that view is generally shared, but I don't like to see people separated from their jobs because they are doing what they believe is expressing their opinion they think is in the national interest.

Mr. von **Raab**. There has never been nor will there ever be an individual separated from his job in the Customs Service for speaking to any Member of Congress or any member of the press. We do not attempt to control our Customs officers, and we respect the need of the public to know what is going on. The only time we would try to control anything is if we had an ongoing investigation, which is understandable. So, I have no problem with that.

**Senator LONG.** Now, some years ago when we discussed this matter with the President, I expressed the view that the Navy ought to be required to help in this matter. Can you tell me what help you are getting out of the Navy if any?

**Mr. VON RAAB.** Yes; we get a substantial amount of help from the Navy, primarily through the use of their Hawkeye aircraft, which is outfitted with radar. They fly missions for us up and down the east coast, southern coast, southwest. That is the primary Navy help. And then of course the Marines provide us with OV-10 support.

**Senator LONG.** What is OV-10?

**Mr. VON RAAB.** The OV-10 is an aircraft that has sensors for detecting and tracking smuggler aircraft.

**Senator LONG.** Are those aircraft being used purely for detection or any of them being used for interception?

**Mr. VON RAAB.** The OV-10's are more of an interception operation. The E2-C's are more of detection.

**Senator LONG.** And how about the ships? Are any of the Navy ships giving you any help out there?

**Mr. VON RAAB.** No; the Navy ships support primarily the Coast Guard.

**Senator LONG.** Now, would you please tell me: Of the reductions made in your request, can you give me some specifics? How much of the cut was made by the Treasury, by Mr. McNamar or whoever it was who did that, and then what percent of it was made by OMB?

**Mr. VON RAAB.** Of the non-air budget, which ended up as a submission of $639 million to this committee, we submitted a $699 million budget to Treasury, and Treasury submitted a $674 million budget to OMB.

**Senator LONG.** And then OMB submitted—or reduced you to——

**Mr. VON RAAB.** $639 million.

**Senator LONG.** Oh, $639 million. How about your air? Did you get all you asked for on the air?

**Mr. VON RAAB.** The Treasury Department actually increased our initial request. Customs fiscal year 1986 request is $60 million which is an increase of $15 million over fiscal year 1985.

**Senator LONG.** All right. Thank you very much.

**Senator DANFORTH.** Senator Bradley?

**Senator BRADLEY.** Thank you very much, Mr. Chairman. Let me just, if I could, follow up on one of Senator Long's questions, just to be clear. You said that there would be no disciplinary action taken against any Customs officer who would speak with a Member of Congress, a Senator or a member of the press. Is that correct?

**Mr. VON RAAB.** That is correct.

**Senator BRADLEY.** All right. One of the issues that I would like to try to clarify, and maybe it is just that I don't understand it well enough, is how fewer import specialists today can do the same job with double the amount of imports as they were doing in 1980. For example, in 1980 we had Customs officers, import specialists, around 2,000. Now it is around 800 to 900, and just speaking in my area—in the New York Customs area I think—do you have all the numbers there? You might just provide it then instead of me. What are the numbers?

Mr. De Angelus. Senator, in 1980 we had 1,219 import specialists. Now, there are other C&V support personnel which gets into the discussion later about——

Senator Bradley. You said C&V?

Mr. De Angelus. Classification of valuable personnel who support the import specialist activity. We determine 1,219 and in 1985 we have 1,023, and that is a 233 reduction of import specialists. Now, over that same time, Customs has increased its inspectors and increased its agents, as well as its auditors, while we have reduced our attorneys and a number of administrative personnel a couple of hundred. In our judgment, in each area we put the resources where they were needed to do the job. Customs is different from the Internal Revenue Service. Generally, we know the population of imports because it is very difficult to bring something into this country unless you come through a port of entry and it is declared through Customs. And with the tremendous growth in trade, there is a tremendous growth in the repetitive shipment, and most of these people are legitimate businessmen.

Consequently, the very, very high percentage of the importers and people entering the country are credible people not violating our laws. And what we have developed and we are developing further on an automated system is a system to get to this bypass, mentioned earlier, to make judgments about relatively high risk and relatively low risk. Textiles currently is the high risk. Steel currently is the high risk. Consequently, we pay a lot more attention to them. Quota items are high risk, not necessary with regard to revenue but with regard to protection of the various industries that are afforded the protection of the quota process and the voluntary restraint process. It used to be—26 years ago when I started—that you might see a certain type of chinaware once this year and you might not see it again for 1 year or 2 years. The same thing with regard to knitwear or any other article, but as the volume of trade has increased, competitive shipments have increased. So, if you look at something today and determine it is no problem, you look at it next week and it is no problem, and you look at it 3 months from now and determine it is no problem, then you decide that is not a problem and I need to concentrate on those areas which I have perceived to be problems, for which I have found discrepancies either duty wise, quota wise, or some other reason.

So, what we have done is try, in preparation for our automated system which will further refine this where we will have nearly perfect knowledge about what is happening in the entire United States, to perfect that knowledge in regard to a given port. We say to the import specialist, okay, say tomorrow you handle 1,000 shipments here, and you can only process 100. How would you decide which ones you would concentrate on and which ones not? Or would you process them all? Oh, no, I have this product and I have that product, and it is not a problem. Then, I have this product and it is always a problem. So we ask them—the import specialists themselves—the professionals handling this—to determine what is high risk and what is low risk, and the import specialists concentrate on the high risk products. The low risk products are handled by lower level personnel. We think that we are doing a good job, and we will do a better job when the automated system is put into effect.

Senator **Bradley**. What if you had a dramatic increase in a number of textiles coming into a port?

Mr. **von Raab**. In that case, we have actually added import specialists to the textile business. We added—what was it, 60, Al?

Mr. **De Angelus**. It was 64.

Mr. **von Raab**. Sixty-four just last year were assigned to textiles.

Senator **Bradley**. Could I get back again to a specific port? Let's take the New York port. Import specialists—do you have the figures on New York import specialists?

Mr. **De Angelus**. I don't have them with me, Senator, but I know them in general.

Senator **Bradley**. Generally, my information is that the number of import specialists has dropped from something like 250 to something close to 80. Is that correct?

Mr. **De Angelus**. That is not correct, Senator, but again I think it is a misperception. What we did in New York was: In New York we have what we call a national import specialist. They are not only responsible for what comes in through the ports of New York, Newark, and JFK, but they are responsible for advising and providing oversight to all the import specialists in the United States with regard to a particular commodity. We will have one who knows automobiles, one who knows shoes, et cetera What we did was we split those apart, and we assigned some import specialists in New York to handle just New York shipments. And we divorced the national import specialist from day-to-day responsibility for the lines of merchandise coming from New York, but he oversees the New York people as well as seeing what happens around the country.

Senator **Bradley**. But he is not calculated in the import specialists for New York. Is that correct?

Mr. **De Angelus**. That is correct. He is now a national import specialist for the whole process, so we have approximately 80 people now who do only this national function, as against 200 and something who process the shipments through the port of New York.

Senator **Bradley**. I see. So, it was a reclassification.

Mr. **De Angelus**. That is correct. We have reduced some but nowhere near the number you mentioned.

Senator **Bradley**. Let me just say that I understand that, at some point, you have to move to automation, but this idea of an importer declaring without inspection is certainly troublesome to me, and it is impossible for your average citizen concerned about the threat of imports to his or her job to say, OK, fine, we will allow importers to declare their own imports. I mean, it is like going to the supermarket and saying you can declare how much you bought. Chances are, the market wouldn't be in business for very long.

Mr. **De Angelus**. Senator, we are concerned about that, too, but as I mentioned earlier: One, I think we know the universe, and we concede that most people are honest. And in effect, it is like you and me when we file our declaration of tax with the Internal Revenue Service, I think that you and I apply full integrity to our declaration to the Internal Revenue Service. Most people in their dealings with Customs apply their full integrity to that.

Senator **Bradley**. Are the penalties tough enough for violation of that declaration?

Mr. **De Angelus**. We believe we have very tough penalties—confiscation of goods is a penalty up to eight times the revenue of the goods, and there are even criminal sanctions against them.

Senator **Bradley**. Can you tell me how many prosecutions were brought last year under those statutes?

Mr. **De Angelus**. The criminal prosecution we will supply for the record, Senator. I believe it was somewhere between 100 and 200, but we can supply that.

Senator **Bradley**. Thank you very much.

Mr. **De Angelus**. Senator, if I may, I hope that no hostility appeared in my voice. Since 1964, I have had great enmity for you when you personally devastated Providence College in the NCAA playoffs. I hope that has not come out in my comments.

Senator **Bradley**. You and I are good friends now. [Laughter.]

Senator **Danforth**. Thank you both very much.

Senator **Long**. I wonder if I could pose one further question, Mr. Chairman? Mr. von Raab, can you tell me to what extent the effort to intercept illegal drugs is bringing in revenue to help compensate the cost of it?

Mr. **von Raab**. Bringing in revenue? Do you mean the seizures that we make—cars and boats and planes?

Senator **Long**. I would assume that there is some revenue involved.

Mr. **von Raab**. There is revenue that comes from——

Senator **Long**. And then the fines, I guess, that are levied on these people.

Mr. **von Raab**. Right. There are fines, and there are seizures. For example, just this week we have trebled our fines on individuals carrying drugs across the borders, but I would have to get back to you with an actual number of how much the fines and what total amounts for boats and planes. We also seize cash, which is substantial revenue to the Federal Government.

Senator **Long**. Could you provide me with the figures? Now, you are obviously getting some money out of seizures.

Mr. **von Raab**. Yes. I will provide you with the value of our seizures of conveyances, our seizures of cash, our forfeitures of property, and the fines that we collect from these individuals.

Senator **Long**. Right.

Senator **Danforth**. It is in your annual report.

Mr. **von Raab**. Right. Last year's——

Senator **Long**. I am not sure it is broken down though. I see you have an item "Violation of Customs Laws" and for the latest figure it is apparently $46 million.

Mr. **von Raab**. It is not broken out for narcotics violations, if that is what you are asking. We will break those figures down and give you the narcotics component of those.

Senator **Long**. All right. Thank you very much.

[Mr. von Raab's statistical report and additional questions and answers for the record follow:]

## ANTICIPATED REVENUE FROM FORFEITURES AND SEIZURES

We anticipate that narcotics related forefeited vehicles and other merchandise, as well as seized currency, will total six million dollars in FY 1985 and eight million dollars in FY 1986. These funds will be transferred to the Customs Foreiture Fund.

## QUESTIONS SUBMITTED FOR RECORD BY SENATOR PACKWOOD ON BEHALF OF SENATOR GORTON AND SENATOR EVANS

*Question.* It is my understanding that Tacoma has 11 full-time Customs Inspectors assigned to the port, but that allotment is also responsible for vacation fill-in and other staffing needs at all Puget Sound ports except Seattle. Can you elaborate on this?

Answer. Because of the large number of ports in the Seattle District, Customs implemented the Area Director concept which provides for one Port Director to assume management and administrative responsibility for a number of other, and smaller, ports, in order to improve overall efficiency and reduce the burden on the District Director. Thus, the Port Director, Tacoma, has responsibility for the other Puget Sound ports, excepting Seattle. Part of this responsibility includes vacation fill-in, which has the concurrent benefit of having one of his immediate employees assess the operation of the other ports, and otherwise provide information necessary for proper oversight. Customs has implemented this procedure in a number of locations where there were numerous Port Directors reporting directly to the District Director and has found this system to improve management effectiveness.

*Question.* What is the status of the Automated Commercial System in Seattle? Have you had cooperation from the community in instituting this system? How will it help you make better use of your personnel in the future? Is there an interim period of time when additional inspectors are needed before we are fully automated?

Answer. The Automated Cargo Clearance and Enforcement Processing Technique (ACCEPT) was installed and has been operational since December, 1983 at Seattle and Tacoma. A series of trade community discussions and orientation sessions were conducted by regional and district personnel prior to cutover to live operation. In all cases, the trade community, i.e., importers, brokers, etc., has been cooperative and supportive.

A primary benefit of the system is to direct physical examination resources away from low risk, low volume shipments toward intensive examinations of a much lesser number, identified by various intelligence sources as having high risk potential. Since that number is low, relative to the total number of arriving shipments, continuing annual increases in cargo volumes can be absorbed with fewer personnel increases.

For cargo examination purposes, no additional inspectors are required prior to full automation implementation.

*Question.* How many Import Specialist positions were allocated to the Pacific Region for FY '82-FY '84? What is the FY '85 Import Specialist allocation level for this Region? How many of these positions are filled? Are there plans to fill vacant positions and increase the number of Import Specialist positions allocated for FY '85?

Answer. The breakdown for Import Specialist positions in the Pacific Region for FY '82-FY '84 was as follows: 1982—236; 1983—228; 1984—225.

The FY '85 Import Specialist allocation is as follows: 1985—235.

The number of these positions filled at this time is 202. There are no plans to increase the allocation. There are also no plans to fill vacant positions for the remainder of FY '85 unless deemed critical based on specific circumstances.

*Question.* How many staff years did the (Pacific) region dedicate to detecting Commercial Fraud in the last two years? What resources will be allocated to this effort in the next fiscal year?

Answer. The Office of Investigations in the Pacific Region expended 25.186 man-years of investigative time detecting and investigating fraud in fiscal year 1984. In fiscal year 1983, 12.46 investigative man years were expended. Investigative resources were strained in 1984 due to the additional commitment of man years to the Presidential candidate protection and the security for the summer Olympics. This next year more manpower will be available to the enforcement effort in fraud because of the lack of additional commitments and the resources to be gained from the realignment of the Office of Enforcement.

The detection of commercial fraud also involves the efforts of Import Specialists and Inspectors. The man-years of their respective contributions are not included in the aforementioned statistics.

*Question.* How many staff years did the Region dedicate to Operation EXODUS during FY '84? What percentage of the volume of outbound total shipments and computer/electronics shipments was inspected? What was the total number of detentions for FY '84? Of these, how many were later released for export? What action has been taken to minimize inspection delays?

Answer. Approximately 106 Inspector and Special Agent staff years were expended in the Pacific region on EXODUS during FY '84; this was approximately 46 percent of total staff years expended on EXODUS in all regions during the year.

Substantially less than one-tenth of one percent of all outbound shipments are selected for inspection under Operation EXODUS. During FY '84, there were 2,391 detentions of merchandise around the country. At present, 86 percent of all detained merchandise is subsequently seized for substantive export violations, and 14 percent is immediately released. Of the seized merchandise, the majority is exported following the payment of a fine established by Commerce and Customs in accordance with statute. The remainder is held as evidence in accordance with the demands of the responsible Federal court.

Customs is very sensitive to the need to balance this nation's national security needs under the EXODUS enforcement program against our economic security needs under a thriving international export program. We have made every effort to minimize unnecessary detentions and delays for legitimate exports—our overall enforcement strategy stresses selectivity and targeting in order to identify high risk violators. Our current 86 percent seizure-to-detention ratio is tangible evidence of this strategy. Two factors are largely responsible for this high ratio: (a) an action taken in June 1984 to refer all decisions as to whether or not merchandise should be detained back to the EXODUS Command Center in Washington, DC where extensive historical and intelligence data bases can be consulted; and (b) greater reliance on automated data bases in the regions containing detailed descriptions of high-risk export commodities and firms.

*Question.* What is Customs estimate of the increase in dutiable merchandise entries within the Pacific Region during the next five years? What is the estimated narcotics threat within that same time period? What resource requirements are necessary to cope with these increases?

Answer. (1) Based on a review of nine years of data in Customs performance report, Customs estimates that the dutiable merchandise by 1990 will be 50 percent higher than now. The total entries in the Pacific Region in 1984 was 1,411,213. Of this total, 1,019,892 were dutiable formal entries, or 74.4 percent of the total. The historical percentage of dutiable formal entries over the past nine years has been 75 percent. Using the same nine year history of formal entries in the Pacific Region, we estimate the growth rate of 10.7 percent per year. (This is a conservative figure since the growth rate for the years 1980 through 1984 was 11.7 percent per year.) The estimated entries are in thousands.

| | Fiscal year— | | | | | |
|---|---|---|---|---|---|---|
| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 |
| Total entries | 1,562 | 1,729 | 1,914 | 2,119 | 2,346 | 2,597 |
| Dutiable entries | 1,171 | 1,296 | 1,435 | 1,589 | 1,759 | 1,947 |

(2) Customs fraud has increased significantly in recent years as a result of the so called trade laws that have been enacted to protect domestic industry and as a consequence of our foreign policy. We see the entry of merchandise into the United States markets in contravention of quotas and voluntary marketing agreements more frequently than we do avoidance or minimizing of duty liability. The Office of Investigations makes threat assessments based on the enacted trade laws but is in no position to make a threat assessment on the impact of any future trade laws on the resource requirements in the area of Customs fraud. The realignment of the Office of Enforcement will make available more manpower resources to the Office of Investigations to meet future needs.

(3) This estimate projects the amount of drugs that will be smuggled into the Pacific Region during the years 1985–1989. These drug estimates are projections of past and present drug smuggling trends and include the latest drug intelligence.

Drug smuggling is a direct reflection of drug supply and demand and, therefore, is a constantly changing environment. This estimate makes relatively modest predictions about the quantities of drugs destined for the Pacific Region, however, future significant changes that may occur to drug supply and demand have not been predicted.

The estimated quantities of drugs destined for the Pacific Region during the period 1985–1989 are listed below by year and in pounds.

| Year | Heroin | Cocaine | Marijuana | Hashish |
|---|---|---|---|---|
| 1985 | 3,100 | 6,500 | 1,713,600 | 30,000 |
| 1986 | 3,400 | 6,700 | 1,848,000 | 24,300 |
| 1987 | 3,700 | 7,000 | 1,926,000 | 21,900 |
| 1988 | 3,700 | 7,300 | 2,004,800 | 19,700 |
| 1989 | 3,700 | 7,600 | 2,083,200 | 17,700 |

The U.S. Customs Service is responsible for the interdiction of all types of contraband smuggled across our borders. Our primary emphasis however, is on drug smuggling and it will take virtually all of our interdiction resources to cope with the drug threat over the next five years.

We have been improving our enforcement performance without increasing our resources through such methods as improved intelligence collection, analysis, and dissemination; more mobile and selected deployment of resources; and improved cooperation with other agencies. We anticipate these improvements will continue and cause a significant increase in the drug interdiction rate over the next five years.

*Question.* What was the average amount of time necessary for commercial cargo to clear Customs during FY 82? What was the average amount of time necessary following the implementation of ACCEPT in FY 83 and FY 84?

Answer. While the primary objective of ACCEPT is to redirect limited manpower resources toward intensive inspection of selected cargo shipments, the facilitation of movement of legitimate cargo also results. With minor variation from port to port, approximately 80 percent of all arriving cargo is returned for release, without physical examination, in 4–8 hour period. The remaining 20 percent is intensively examined, the amount of time required depending on the nature of the identified risk, size of the shipment, physical packing characteristics, etc. Prior to ACCEPT, a minimum of 8 hours was required for clearance of all shipments.

*Question.* During the past ten years, the volume of automobile and commercial truck traffic has nearly doubled at the Pacific Region Northern Border crossings, and additional Customs facilities have been added. In spite of the increased workload and additional locations the staffing level for inspectors has been declining. This has resulted in long lines at rush hours and holidays or inadequate safe-guards against smuggling and illegal entity. What action is planned to correct this situation?

Answer. Although new facilities have been constructed in the Pacific Region Northern Border ports, there has been no increase in the number of facilities over the past ten years. It is true, however, that workload has grown significantly in these ports, while staffing has remained relatively constant. Unfortunately, this situation is common throughout the Customs Service. In keeping with the Administrations goals to reduce the costs of government, Customs is continually developing new methodologies, such as profiles, selective cargo processing systems supported by automated data bases and improved intelligence, which will enable us to effectively process increased workloads with reduced manpower.

The Customs Service will continue to monitor workload, threat assessments and service to the traveling and importing public to ensure the most effective allocation of manpower within our appropriated resources.

*Question.* The U.S. Customs Service is currently planning for a major centralization of management support functions including personnel work in each regional office. Designed as a cost-cutting move, this centralization will result in the transfer or firing of a significant number of individuals in regional offices, and presumably a diminishing of service. Has the Customs Service considered the impact of this diminished management ability in light of the agency's plans to increase its commitment in personnel and other resources for the drug interdiction program? Is it your judgement that the eventual savings from this centralization of administrative functions will be substantial enough to justify the reduced effectiveness in regional offices?

Answer. Centralization of Administration will result in more effective management through automation and standardization of current administrative systems. Implementation of these new automated systems and the economies of scale of centralization will allow Customs to reduce overhead costs and dedicate an increasing share of its resources to enforcement and line operations. Annual recurring savings of $5.5 million will quickly offset the $8 million cost of implementation. The new centralized operation will provide more efficient and effective service. Management ability will not be diminished through centralization. Indeed, centralized recruitment should help us attract the best possible staff servicewide.

*Question.* In preparation for this proposed centralization of administration functions, has the Customs Service evaluated the example of the Drug Enforcement Administration, which has implemented a plan which is similar in scope. I have been told that there was a significant amount of dissatisfaction among the DEA managers who are forced to place increasing demands on decreased staff in what they consider to be an unwieldy structure. Is there enough attention being directed within your agency toward examples such as this prior to implementing any administrative reorganization in the Customs Service?

Answer. Customs has examined DEA's experience with centralization as a part of our plan to centralize administrative functions within Customs. Study groups assigned to each functional area also looked at the Commerce Department's successful centralization of administrative functions. In addition, study teams visited centralized operations at the FBI, Dept. of Agriculture, and Veterans Administration. The experiences from all of these agencies have been incorporated into Customs plans for implementing administrative centralization.

*Question.* What is the status of the proposal to move the Seattle district from the jurisdiction of the Pacific Region into the North Central Region? Will you be discussing this matter with the affected businesses? How will it affect service levels?

Answer. The Customs proposal for realignment of a part of the Seattle District into the North Central Region includes only those ports of entry along the Canadian border. All remaining ports of the current District, including the port of Seattle, would remain in the Pacific Region.

Customs has already conducted several meetings with Pacific shipping interests to assure that the shipping industry would not be affected by the proposed change.

Because of the priority of other administrative consolidations, action on this issue will not be taken before January 1986.

*Question.* How does the workload per inspector in the Seattle district compare with other areas of the country? How does the Los Angeles Region's workload compare with other regions?

Answer. No accurate single workload indicator exists from which a direct comparison among ports, districts or regions can be made. Instead, several key indicators are used, which, when combined, constitute the large majority of workload driven resource requirements. These five workload indicators are shown in the following two tables, which compare the District of Seattle and Los Angeles (Pacific) Region to other areas, based on percentage of workload and staffing to national totals.

Table 1 indicates that Seattle compares favorably with two similar districts, Detroit and Buffalo, each with roughly four percent of the inspectors in the country. The workload indicators are not equal, of course, and tend to balance each other out. The District of San Francisco is also seen to be of the same general size, but does not have any land border activity.

Table 2 is a similar comparison among the seven Customs regions. An interesting note is that while the Pacific Region has the largest share of inspectional resources, they do not rank first in any of the primary workload indicators; they do, however, rank second or third in all of them. A more important indicator is seen by comparing each region's share of inspectors to the corresponding regional share of workload. The Pacific region is most balanced in this respect. There it is seen that with 23.8 percent of the inspectors, all indicators are within 18–27 percent, implying an even distribution of workload with respect to available resources.

TABLE 1.—COMPARISON OF PERCENTAGES OF NATIONAL TOTAL OF PRINCIPAL DISTRICT WORKLOAD INDICATORS FOR INSPECTORS AND PERCENTAGE OF INSPECTORIAL STAFF FISCAL YEAR 1984

[In percent]

| Workload indicator | Seattle | Detroit | Buffalo | San Francisco |
|---|---|---|---|---|
| Vessel arrivals | 12.1 | 19.7 | 1.2 | 1.3 |
| Vehicle arrivals | 6.9 | 9.1 | 7.3 | |
| Declarations | 2.2 | .4 | | 4.2 |
| Merchandise releases | 4.4 | 9.2 | 8.3 | 4.9 |
| In-bond transactions | 5.4 | 5.1 | 2.1 | 3.3 |

### TABLE 1.—COMPARISON OF PERCENTAGES OF NATIONAL TOTAL OF PRINCIPAL DISTRICT WORKLOAD INDICATORS FOR INSPECTORS AND PERCENTAGE OF INSPECTORIAL STAFF FISCAL YEAR 1984—Continued

[In percent]

| Workload indicator | Seattle | Detroit | Buffalo | San Francisco |
|---|---|---|---|---|
| Inspector staff | 3.7 | 4.0 | 3.4 | 3.5 |

### TABLE 2.—FISCAL YEAR 1984, COMPARISON OF PERCENTAGES TO NATIONAL TOTAL OF PRINCIPAL REGIONAL WORKLOAD INDICATORS FOR INSPECTORS, AND PERCENTAGE OF INSPECTIONAL STAFF

[In percent]

| Workload indicator | Customs region | | | | | | |
|---|---|---|---|---|---|---|---|
| | Northeast | New York | North Central | Southeast | South Central | South West | Pacific |
| Vessel arrivals | 11.2 | 3.4 | 23.3 | 22.9 | 5.0 | 15.6 | 18.6 |
| Vehicle arrivals | 16.6 | | 11.6 | | | 44.8 | 27.1 |
| Declarations | 5.6 | 27.2 | 11.0 | 27.3 | .6 | 4.7 | 23.6 |
| Merchandise release | 20.3 | 20.1 | 22.9 | 7.6 | 1.3 | 7.3 | 20.7 |
| In-bond transactions | 8.8 | 38.1 | 15.8 | 11.0 | 1.2 | 5.5 | 19.5 |
| Inspector staff | 15.3 | 18.2 | 11.7 | 12.8 | 2.8 | 15.4 | 23.8 |

*Question.* During the last five years, international passenger traffic at Sea-Tac International Airport has increased 107 percent. The Port of Seattle is the nation's third largest container port and the nation's tenth largest cargo airport. Since 1979, the value of Seattle's marine cargo has increased 51 percent. Air cargo imports have grown 24 percent. Yet, the number of Customs inspectors are being used for data entry activities. Are more Customs inspectors needed to handle the workload at the port of Seattle?

Answer. The Customs Service recognizes the growth in workload in Seattle, however our indicators show the following: International air passenger traffic has increased 43.4 percent since FY 1980; and number of entries has increased 69.7 percent since FY 1980.

The national totals reflect an increase from FY 1980 of: 21 percent in international air passenger traffic; and 18.8 percent in number of entries.

The number of Customs inspectors in Seattle has decreased 8.5 percent since FY 1980, in comparison to the national increase of .6 percent.

Although the figures show a larger growth in the workload than the overall Customs growth, workload is not the sole criteria for allocation of inspectional resources. Allocation is based on numerous factors, including workload, threat assessment and service to the traveling and importing public.

In addition, when comparing Seattle to the national figures, Seattle has 3.5 percent to the total inspectors while they process 2.2 percent of the arriving persons and perform 4.4 percent of the merchandise examinations. Thus, the port of Seattle does not appear to be more adversely affected in the allocation of inspectional positions than other designated Customs ports. The Customs Service has implemented various selective processing systems such as ACCEPT, Red-Green passenger processing and vessel entry selectivity in order to most effectively utilize available manpower.

The Customs Service has recognized the diversion of Customs inspectors to data entry activities and on February 19, 1985 authorized Seattle to hire two clerks for this function. This will free inspectors from this task and allow them to return to inspectional duties.

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## QUESTIONS ON BANNED IMPORTS FOR COMMISSIONERS VON RAAB FROM SENATOR ARMSTRONG AND RESPONSES THERETO

*Question.* In the past, Treasury officials, specifically former Secretary Regan and Assistant Secretary Walker, have stated that there is not sufficiently specific information available for the enforcement of section 307 of the 1930 Trade Act. Is that correct?

Answer. That is correct in reference to Soviet products. I have been so advised by Secretary Regan on January 28, 1985, in response to my recommendations (dated September 28, 1983, and December 2, 1983), that a finding be published to the effect that certain classes of merchandise from the Soviet Union are produced by convict, forced, or indentured labor.

*Question.* The regulations promulgated for the enforcement of section 307 of the 1930 Tariff Act, specifically Title 19, section 12.42, Paragraph (g), states that "any merchandise of the class specified in a finding . . . shall be considered and treated as an importation prohibited by section 307, Tariff Act of 1930, unless the importer establishes by satisfactory evidence that the merchandise was not mined, produced or manufactured in any part with the use of a class of a labor specified in the finding." In other words, the regulations say that we must identify classes of merchandise, not specific items, as being made by forced labor in order to invoke a ban. We do not have to determine that the specific item being imported is, in fact, made with forced labor. If it fits into the particular class of merchandise, then it should be banned and the burden is on the importer to prove that the specific item was not made with forced labor if he wants to import it. Is that correct?

Answer. Your statement is a partial description of the requirements of section 12.41, paragraph (g) of the Customs Regulations. But there is a further requirement that the class of merchandise be found on the basis of reliable evidence to be made by forced labor. Currently, with respect to products of the Soviet Union, the Treasury Department is not satisfied that such evidence exists.

*Question.* Under these regulations, it seems that a legal attack on the ban itself can only take place if the plaintiff feels the action was arbitrary or capricious. How can this justify Treasury/Customs' non-action on enforcement of these regulations?

Answer. A ban can only be imposed after an affirmative finding, with the Secretary's approval, has been published. Then the burden shifts to the importer to "establish by satisfactory evidence that the merchandise was not produced with the use of forced labor". It is true that once a finding has been made, and approved, the burden is on the importer to disprove it.

*Question.* Why isn't CIA information, publically available, which lists "industries and products in which forced labor is used extensively," along with other information available to the public, adequate for the enforcement of this law? When would you determine that this information is sufficient for enforcement of section 307, given the regulations cited above? In a court, when would that the burden of proof be on Treasury and Customs, and not on the importer, as long as the action taken was not arbitrary or capricious?

Answer. The CIA information referred to, and the quoted statement by the CIA characterizing the information, were contained in a May 1983 letter from the Director of Central Intelligence to Senator Armstrong. Ths letter was published in the *Congressional Record* of September 15, 1983. I was advised by former Secretary Regan on January 28 of this year that he had received another letter from Director of Central Intelligence Agency in which he advised the Secretary that he had reconsidered his earlier views and had concluded that there is not a "solid case" that any particular merchandise received from the Soviet Union is produced with forced labor.

In view of this position on the part of the Director of Central Intelligence Agency, I believe the legal position of Customs would not be strong.

*Question.* It is my understanding that your preliminary finding still exists. The way I read the regulations, the Treasury simply has not acted on a final determination. However, if a preliminary finding is made, based on reasonably conclusive evidence, then Customs must, according to the regulations, withhold the release of items falling under the specified classes of merchandise until a final determination. However, if a preliminary finding is made, based on reasonably conclusive evidence, then Customs must, according to the regulations, withhold the release of items falling under the specified classes of merchandise until a final determination is made, and you are not required to receive approval from the Treasury Secretary. If you still stand behind your preliminary finding, why can't you withhold the items falling under the classes cited until Treasury makes a final determination? I understand that you have no discretion but to do so. Is Treasury preventing you from doing so?

Answer. The Treasury has in fact acted and issued a final determination on my (Commissioner of Customs) recommendation. Inasmuch as the preliminary finding has been disapproved Customs may not withhold the items on the basis of the then available evidence.

*Question.* The Soviet Union is a closed society. In demanding such detailed information on the utilization of forced labor in the making of a specific product that is being imported into the United States, are we not more able to enforce this law in regard to less closed societies, where there is greater abundance of information on the prison system? Don't you believe that one of the reasons that the Soviet Government does not release information on its prison system is because they so flagrantly violate international law in the camps? Why should we willingly import items made with forced labor just because the Soviet authorities won't cooperate by giving us information on the Gulag and the use of forced labor? As the Treasury Department describes things, that is what is needed.

Answer. I fully concur with your assessment of the extraordinary difficulties present in dealing with the Soviet authorities as compared with open societies. Quite obviously the enforcement of our laws cannot, should not, be made dependent on the cheerful cooperation of the suspect. Indeed, it need not be so dependent. Nevertheless, it should be recognized that Customs is only one component in the enforcement mechanism, and unilateral, unapproved action by this agency alone would not only be legally suspect and easily defeated, but also contrary to our governmental processes.

*Question.* Is the information available on the utilization of forced labor in making some products more specific than on others? For example, it is widely known that forced labor is used to a great extent in the manufacture of goods made with wood, from cutting down the trees to making the logs into usable lumber to actually making or carving the specific item from the lumber. If so, then why have these items not been banned? Can you tell us which items have more information available as to their manufacture with forced labor?

Answer. I'm not in the position to state specifically the amount and quality of information which may be available on specific products from the Soviet Union. As you know, Customs must rely on information gathered and developed by other Government agencies. It may well be that varying degrees and quality of data exists on different products. The need to protect information sources and intelligence gathering methods would make it unwise to release such details.

*Question.* If the information available is sufficient to enforce the law and invoke a ban, as I believe it is, would the Treasury instruct Customs to take such action? Section 307 is the law, and the law must be enforced. Former Secretary Regan stated, in a letter to another Congressman, that "collateral foreign policy and trade effects of enforcing section 307 against Soviet imports" must be considered. I would say that such action would fit well into what I consider to be a good foreign policy toward the U.S.S.R. We should let them know that we find forced labor morally reprehensible. But that is irrelevant to the real issue. The law is the law and it must be enforced, no matter what our policies are. We should consider the foreign policy effects of a ban, but those effects should not deter the United States Government from enforcing its own laws. Do you agree with that? Why did Secretary Regan see as necessary consultation on foreign policy implication before making a decision on the ban?

Answer. I hope there is no need for me to emphasize where I stand on the morality of the use of forced labor. I would also like to say that the non-imposition of a ban on Soviet products by Customs pursuant to section 307 in no way implies our moral indifference and lack of concern with such reprehensible practices. Section 307, however, by its very nature ties in with foreign policy considerations and its enforcement impinges on a whole range of issues, beyond the mere importation of some merchandise. It is, therefore, not an ordinary tariff law which is intended for and susceptible of everyday, routine enforcement. Indeed, your very concern with the broader issues is itself evidence that the implications are well beyond the scope of a routine Customs matter. That is why the Secretary saw it fit to consider foreign policy implications before making a decision on the ban.

*Question.* Do you believe that, if the Customs recommendation were enforced, thereby banning goods made with forced labor from entering the country, it would run counter to the current foreign policy of the United States? Would it run counter to the national interest? If so, does the Treasury Department, or the State or Commerce Departments, or anybody support the removal of this law from the books. If the law has implications detrimental to the United States interests, it should be revoked or amended, but certainly not ignored and invoked in an ad hoc fashion.

Answer. We do not support the removal of this law from the books. Whether it should be amended or refined to provide for a wider range of options, for varying circumstances, may be worth considering. Until such time, I believe that a case-by-case, properly coordinated enforcement policy is appropriate.

## QUESTIONS FROM SENATOR HEINZ: CUSTOMS SERVICE

*Question.* Section 236 of the Trade and Tariff Act of 1984 authorizes the provisions of Customs services at five airports on a reimbursable basis. Subsection (e) of that section requires specific appropriation of funds for this purpose.

(a) What is your estimate of the funds needed for FY 1985?

(b) Have you given that estimate to the Appropriations Committees?

(c) Should those funds be appropriated, are you prepared to begin these services immediately? At all five airports?

(d) Do you believe the provisions of subsection (e) are necessary to the effective implementation of this provision?

(e) Do you support S. 741, introduced by Sen. Humphrey and myself, to repeal subsection (e)?

Answer. Customs estimates that $154,000 will be needed in FY 1985 and this estimate is being submitted to the Appropriations Committees. We are prepared to begin serving those airports for which we have negotiated agreements. Services will be provided to other designated airports after the Governor has approved the designation and agreements have been reached. As directed by the statute, only five airports will be provided services on this reimbursable basis.

Customs feels that subsection (e) is not necessary to effective implementation of the provisions. We believe if subsection (e) was deleted funds would revert directly back to Customs' appropriation and delays, such as those experienced this year, would not occur. Therefore, Customs does support S. 741 to repeal subsection (e) because we could operate under current user fee statutes more efficiently.

*Question.* S. 239, which I introduced earlier this year, provides for a change in the statute of limitations in certain Customs civil cases and for the sharing of grand jury information with Customs in certain limited situations. This is identical to legislation I introduced last year, which I have previously discussed with you.

(a) What is your position on this bill?

(b) In view of the continuing passage of time, is the revision of the statute of limitations still an important issue? Are there cases you reasonably expect to be affected by this change?

Answer. (a) Last year, we and the Department of the Treasury fully supported S. 2531 (see enclosed letter dated July 19, 1984, from the Deputy General Counsel of Treasury to Senator Robert Dole, Chairman, Committee on Finance). As is explained below, because our need for this legislation is as acute as last year, we would urge the Department to support S. 239.

(b) Even in view of the passage of time, the revision of the statute of limitations is still an extremely important issue. As explained in the above-referenced Treasury letter (see pp. 2–3), our efforts to aggressively enforce the laws against fraudulent importations are severely hampered because of the present 5 year (from commission of the act) limitation period for grossly negligent and negligent violations of 19 U.S.C. 1592. Because violations of this nature are often not detected until much time has passed from the illegal acts, Customs is often placed at a disadvantage when bringing civil penalty proceedings against the violator.

The Daewoo case also presents a clear reason why the grand jury information provision in S. 239 is so important to Customs. In Daewoo, following conclusion of the criminal case the Government obtained a disclosure order allowing certain grand jury information to be used for the section 1592 case. The information was thought to be highly relevant to the civil inquiry because Daewoo had pleaded guilty to various charges involving fraudulent importations of steel into the U.S.

Subsequent to the granting of the grand jury disclosure order, Daewoo filed legal papers asking the court to rescind the order because Customs had not allegedly met the two-pronged disclosure test under *U.S.* v. *Sells Engineering Inc.*, 103 S. Ct. 3133 (1983) and *U.S.* v. *Baggot*, 103 S. Ct. 3164 (1983). In essence, Daewoo argued that Customs had not shown a "particularized need" for the grand jury material, and had not shown that the section 1592 proceeding was "preliminary to" a judicial proceeding.

Although the court has not yet ruled on Daewoo's request, there is a chance that it will be granted because of the unclear state of the law. Such a result would seem to be totally incongruous, given the fact that Customs has already issued approximately 25 million dollars in penalty notices against Daewoo for violations of section 1592. S.239 would rectify the problems presented in typical Customs fraud cases such as Daewoo, by specifying the point at which Customs would be entitled to obtain grand jury matters for civil purposes. This would help ensure that violators do not benefit from the passage of time by reason of short limitation period.

S. 239 would also help eliminate the problem with the present limitation period applicable to section 1592 actions. The Daewoo case also poignantly demonstrates the seriousness of this difficulty with the civil statute of limitations. In Daewoo, the criminal case lasted until January 1985, when it concluded with felony convictions of the firms and one company officer. Because Customs followed its usual policy of deferring civil proceedings until completion of the related criminal case, we were forced to wait until last January to aggressively pursue the section 1592 inquiry of Daewoo. To make matters worse, because information in the indictment against Daewoo indicated that the firm may have begun unlawful importations in January 1980, the civil statute of limitations regarding grossly negligent or negligent section 1592 violations began to expire at the same time Customs was "free" to begin the civil case in January 1985.

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DEPARTMENT OF THE TREASURY,
OFFICE OF THE GENERAL COUNSEL,
*Washington, DC, July 19, 1984.*

Hon. ROBERT DOLE,
*Chairman, Committee on Finance,*
*U.S. Senate, Washington, DC.*

DEAR MR. CHAIRMAN: This responds to your request for the Department's views on S 2531, "To extend the statute of limitations for fraud under the customs laws and to clarify the extent of Government access to grand jury proceedings."

For the reasons stated below, the Department supports the enactment of S. 2531.

### BACKGROUND

The Customs Service has investigative jurisdiction over two provisions of law on Customs fraud. One of these statutes, 18 U.S.C. 542 (entry of goods by means of false statements) is a criminal provision with felony sanctions for violations of its terms. The civil statute, 19 U.S.C. 1592, provides for significant monetary penalties (and in certain cases forfeiture of goods) for the entry of goods into the United States by means of any false act or omission. These two statutes are quite similar and provide for the punishment of parties who enter articles into the United States by fraudulent or negligent means.

Upon receiving information indicating possible violations of the above statutes, customs initiates a single investigation to determine whether either of the statutes was violated. However, because of several important considerations, Customs will defer the continuation of the civil portion of a fraud investigation until any related criminal case is completed. To do otherwise, *i.e.*, to continue with both a civil and criminal investigation at the same time, would force a suspect to simultaneously respond to civil and criminal inquiries.

From the alleged violator's viewpoint, responding to simultaneous inquiries would be quite disadvantageous because he might incriminate himself in the criminal case by responding to the civil inquiry (where greater use of pretrial discovery is allowed). From the Government's viewpoint, an ongoing civil proceeding during a criminal inquiry might have the effect of producing inconsistent statements, may allow the violator to use civil discovery to learn the Government's case, and in a grand jury setting, may give rise to charges of grand jury abuse and/or prosecutorial misconduct. Generally, from the Government's perspective it is far easier to bring a successful civil fraud case under section 1592 if the civil case is deferred until the defendant has been adjudged guilty on a related criminal count.

### AMENDMENT OF 19 U.S.C. 1621

Recently, the general policy of deferring civil fraud cases has forced Customs into increasingly difficult positions. The main reason for this stems from the 1978 amendment to the statute of limitations, 19 U.S.C. 1621, for civil penalties. Prior to the amendment, Customs could bring a suit to recover a civil penalty if the action was instituted within 5 years from the time when the alleged offense was discovered. However, the 1978 amendment made the limitation period 5 years from the date that the alleged violation was committed for negligent or gross negligent violations of section 1592 (the limitation period for fraudulent violations was left at 5 years from discovery).

The difficulties caused by the shortened limitation period are illustrated by a description of a typical fraud case. Information indicating a possible fraudulent importation is usually not received by Customs for a considerable period of time after the alleged offense has occurred. Frequently, a year or more has passed since the date of commission of the alleged illegal act. Customs then begins an investigation into the matter, and because fraud cases are often quite complex, the investigation, as a general rule, takes a year or two to complete. If evidence uncovered by the investigation is sufficient, a criminal prosecution results which takes several months to complete. Because ~~civil fraud~~ cases are usually deferred pending completion of related criminal cases, and because of the time that has already expired, there are an increasing number of situations where the criminal case is concluded just prior to the expiration of the 5-year limitation period with regard to negligent or gross negligent violations of the civil statute.

When Customs has had a very short time frame within which to file a civil case to toll the statute of limitations, several actions have been followed to preserve the civil case. One, has been to obtain a waiver of the statute of limitations from the alleged violator. However, this alternative often is unavailable because it depends solely on the violator's consent to a waiver. Another option has been to allow the time limit for gross negligent or negligent cases to run, and hope that Customs can establish fraud so that the longer statute of limitations applies. The problem with this latter option is that section 1592 requires a showing of fraud by "clear and convincing evidence", as opposed to the lesser standard of a "preponderance of the evidence" for negligent violations. Thus, Customs is in the difficult position of meeting a higher burden of proof if it allows the negligent claims to become subject to the limitation period.

Another option that has been used, but which is unattractive is to quickly conclude administrative proceedings under section 1592 and file a judicial collection action based on "bare bones" information. Theoretically, section 1592 allows the issuance of a pre-penalty notice with a very short response time (e.g., one week), followed by the issuance of a penalty notice with a similarly short response time. If the alleged violator does not pay the penalty, Customs can quickly refer the case to the Justice Department for filing of a judicial collection action. However, this course of action often results in very shallow information to support the penalty claim, thereby subjecting the Government's case to dismissal for lack of specificity. While the Government may amend a complaint, and may indeed gather further information in support of the penalty claim by way of civil discovery, this approach has significant risks and is, therefore, usually not a viable option.

By amending section 1621 to make the limitation period 5 years from the date of discovery for all Customs civil violations, section 1 of S. 2531 would relieve the unduly burdensome time constraint that develops in most major fraud investigations. The longer limitation period would have two significant effects. First, it would allow greater enforcement of section 1592 violations because false entries are often not discovered until well after they are made. The longer limitation period would allow Customs the time to investigate cases where a violator manages to effectively conceal his deceit for a substantial length of time. The longer limitation period would also allow Customs to follow a policy of generally deferring civil proceedings until related criminal cases are completed. This would obviate the need for Customs to follow the often ineffective approaches it has been forced to develop in order to protect civil penalty claims.

### AMENDMENT OF 19 U.S.C. 1592

Section 2 of S. 2531 would amend section 1592 by allowing the Government greater access to grand jury information. In essence, the amendment would allow Government use of grand jury information for enforcement of section 1592 once a prepenalty notice has been issued under that statute. Although we believe that Government access to such information is authorized under present case law, two recent Supreme Court decisions have raised potential concerns in this area. An explicit statutory provision such as section 2 would alleviate these concerns.

On June 30, 1983, the Supreme Court decided *United States* v. *Sells Engineering, Inc.*, —— U.S. ——, 103 S. Ct. 3133 (1983), and *United States* v. *Baggot*, —— U.S. ——, 103 S. Ct. 3164 (1983); both cases turned upon the interpretation of Rule 6(e) of the Federal Rules of Criminal Procedure. In *Sells*, the Court held that Rule 6(e)(3)(A)(i) does not entitle civil attorneys in the Government to automatic disclosure of matters occurring before a grand jury for use in a civil suit. Instead, the Supreme Court ruled that such attorneys must obtain a court order pursuant to Rule (6)(e)(3)(C)(i) authorizing the disclosure of grand jury materials.

In *Baggot*, the Supreme Court held that Government attorneys could obtain Rule (6)(e)(3)(C)(i) disclosure orders (for grand jury material) only "[i]f the primary purpose of the disclosure . . . is to assist in preparation or conduct of a judicial proceeding", 103 S. Ct. at 3167. In essence, the decision means that disclosure to the Government is unauthorized simply to determine liability, as in a tax audit, or to ascertain whether a violation of law has occurred.

While the Customs Service, of course, recognizes that grand jury proceedings should be kept secret, we feel that some courts may use the *Sells* and *Baggot* cases to unduly restrict Government access to grand jury information under the explicit disclosure exception of Rule 6(e)(3)(C)(i). In *Baggot* the Court specifically left open the question at what point an agency's action would be preliminary to litigation (*i.e.*, to obtain a 6(e) disclosure order) if it arose under an administrative scheme such as that provided in 19 U.S.C. 1592 (*i.e.*, a scheme that requires resort to the courts to vindicate the agency's action, as opposed to the Internal Revenue audit procedure at issue in *Baggot*). In light of this, from a Customs civil penalty standpoint, *Baggot* does not establish the point in time in a section 1592 proceeding that could definitively be construed as, "preliminary to a judicial proceeding." Under *Baggot*, it is certainly conceivable that some courts may construe the issuance of a penalty claim as preliminary to a judicial proceeding, because Customs must go to court to collect the penalty. Even worse, courts might conclude that a section 1592 action is preliminary to a judicial proceeding only after the violator has refused to pay the penalty claim and the matter has been referred to the Department of Justice for institution of a judicial collection action.

S. 2531 would remove the uncertainty described by, in effect, making a section 1592 action preliminary to a judicial proceeding (for purposes of Rule 6(e) disclosure) once a pre-penalty notice has been issued under that statute, *and* upon a showing by the Government that the evidence sought may be relevant to the enforcement of section 1592. (With regard to this, it appears that the term "prepayment penalty notice" in the proposed new subsection (f)(1) to section 1592 was mistakenly used for "pre-penalty notice", inasmuch as the latter term is in section 1592(b)(i)). Accordingly, Customs would be able to obtain access to matters occurring before a grand jury at a critical stage of the administrative process.

There are several reasons why Customs access to such information is crucial following issuance of a pre-penalty notice under 19 U.S.C. 1592(b)(1). Rather than detail them all, we have summarized them below:

(1) In our view, the proposed amendment would codify existing case law. Using the *Baggot* analysis it is clear that Customs has no way of enforcing section 1592 penalties without resort to the courts. Unless a violator voluntarily pays a penalty, Customs must refer the matter to Justice for institution of judicial collection action. Thus, once a pre-penalty notice has been issued, thereby initiating formal section 1592 proceedings, the matter is preliminary to a judicial proceeding within the meaning of Rule 6(e)(3)(C)(i). Accordingly, the amendment is not a departure from the present state of the law.

(2) Once a pre-penalty notice has been issued, violators usually explore the possibility of settling the matter with Customs. Under 19 U.S.C. 1617, Customs has the authority to compromise penalty claims, but this can only be done if Customs is fully aware of the strengths and weaknesses of a case. Without access to grand jury materials which are obviously highly relevant in gauging the strength of the related civil cases, Customs generally has no choice but to turn down settlement offers made at this point in time. The amendment would allow access to this highly relevant grand jury information, and Customs' ability to compromise penalty claims would therefore increase with the attendant benefit to the Government and suspected violators.

(3) Access to grand jury information would also allow Customs to assess the proper penalties under section 1592. Under that statute, Customs must assess a penalty based upon whether the violation occurred as a result of negligence, gross negligence, or fraud. Presently, when a borderline case exists, Customs generally assesses a penalty based on the highest supportable degree of culpability, inasmuch as it is assumed that subsequent access to grand jury information will bolster that finding. If grand jury information was available at the pre-penalty stage, Customs would be in a much better position to evaluate questions of culpability. This in turn would allow Customs to assess penalties at lower than fraud levels, rather than to make fraud findings because of the anticipated obtainment of disclosure orders.

(4) Earlier access to grand jury material would also allow Customs responses to pre-penalty notices to be more fully evaluated. Under 19 U.S.C. 1592(b)(1)(A)(vii), suspected violators have an opportunity to make representations (oral and written) as to why a penalty notice should not be issued. Based upon any such representations and the evidence available, Customs then decides whether to issue a penalty notice, and, if so, at what degree of culpability. Naturally, if grand jury information from the related criminal case is available to Customs, representations made by the

violator may be more fully considered and evaluated than would be the case if only evidence outside the grand jury was available. Presently, without access to grand jury information, it is exceedingly difficult for Customs to accept violator responses to a pre-penalty notice concerning any facet of the case that may have been reviewed by a grand jury.

(5) It would be in the public interest to avoid making Customs and suspected violators duplicate grand jury investigations in a related civil case. If Customs is not granted access to grand jury information, it must use its administrative authority to summons information and otherwise gather evidence as part of the civil inquiry. Naturally, this entails great expense both to the Government and responding parties. Access to grand jury information at the pre-penalty stage, would allow Customs to avoid repetition of inquiries and would allow the Government to more quickly focus on information relevant to the case.

(6) Finally, we stress that disclosure at the pre-penalty stage would not compromise grand jury secrecy. As the Supreme Court emphasized in *Sells,* disclosure to Government attorneys poses less risk of further leakage or improper use than would disclosure to private parties or the general public, 103 S. Ct. at 3149. As with all grand jury matters, Customs would maintain special safeguards to protect grand jury secrecy, if access was authorized at the pre-penalty stage of section 1592 proceedings.

For the reasons stated, the Department strongly supports the enactment of S. 2531.

The Office of Management and Budget has advised that there is no objection from the standpoint of the Administration's program to the submission of this report to your Committee.

Sincerely yours,

Margery Waxman,
*Deputy General Council.*

*Question.* The Subcommittee staff has provided you with material indicating that an additional expenditure of $48 million on commercial fraud compliance would yield an additional $1.2 billion in revenue.

(a) Do you agree with the analysis in this material?

(b) If you do not agree, please explain why not.

(c) What is Customs current estimate of the revenue returned for each one dollar of Customs' expenditures?

(d) What is Customs current estimate of the marginal return for each additional dollar spent beyond current levels?

(e) Please indicate the proportion of Customs resources devoted to commercial fraud in each of the past five fiscal years, including FY 1985.

Answer. At this time there is no "hard" data confirming the conclusions of the material presented to Customs. Customs attempted to determine whether a "revenue gap" exists and its potential magnitude in a Customs Compliance Measurement Program at the Port of Philadelphia several years ago, but the courts and other groups prevented a continuation of the study. Therefore, there is not verifiable data on the extent of revenue losses due to fraud or other causes; and as a result there is no analytic approach to determining the relationships between additional staffing or funding and increased revenues.

The Subcommittee data also, we believe, placed too high a significance on the relationship between "entries processed" and potential "additional revenue". Simply increasing the number of entries processed (or reviewed) will not produce significant additional revenue. Customs' ACCEPT and CET programs have shown that "selective" cargo processing produces at least equivalent enforcement results at lower cost. We believe that the combination of improved intelligence and automated processing produce excellent results. There is no reliable evidence that additional staffing and entry reviews will produce sufficient revenue to offset the additional costs.

Customs has not computed any estimates of incremental return for each additional dollar spent beyond current levels. To do so involves a complicated analysis involving a multitude of unpredictable factors, including international pricing, the value of the dollar in foreign markets, supply and demand, etc., all of which impact on marginal return. We are not aware of any approach for isolating the impact of these various intertwined variables to derive an accurate estimate of marginal revenue return.

In FY 1984 the actual rate of return for each one dollar appropriated was $21.06 and we expect this rate of return to continue in FY 1985. Listed below are the proportions of Customs resources for Operation Tripwire, Customs' coordinated program to combat fraud, from FY 1982, the year the program began, through FY 1985.

| Fiscal year: | *Percent* |
|---|---|
| 1982 | 3.1 |
| 1983 | 4.5 |
| 1984 | 5.1 |
| 1985 | 5.3 |

*Question.* Attached is a letter from the Acting Commissioner of Customs to the American Iron and Steel Institute. Please provide an update on the status of the Fraud Alert Program referred to in the letter.

THE COMMISSIONER OF CUSTOMS,
*Washington, DC, January 18, 1985.*

Mr. DAVID PHELPS,
*Director of International Trade and Economics, American Iron & Steel Institute, Washington, DC.*

DEAR MR. PHELPS: The Customs Service is encouraged by your interest in devleoping a fraud alert system among your member firms. The domestic steel trade has been a source of leads on fraudulent activity on steel imports over the years. This alert system will enhance this activity giving Customs many new "eyes and ears" in the steel marketplaces across the United States. We concur that this will assist us in the prompt detection of fraudulent activity among evaders of the bilateral agreements which are an important part of President Reagan's steel import program.

I have directed the steel program personnel in our Operation Tripwire Fraud Investigations Center to work closely with you in developing the guidelines for your fraud alert program. Their experience with the types of fraud occurring on steel importations will allow them to develop profiles of the types of indicators which would alert a domestic steel salesman or sales executive to possible import fraud.

We commend your organization for its initiative in this area and look forward to working with you on your fraud alert program.

Yours faithfully,

GEORGE C. CORCORAN, Jr.,
*Acting Commissioner of Customs.*

Answer. Pursuant to Customs positive response to the fraud alert system Import Information Group was formed within AISI. This group is comprised of key marketing information officers of the domestic steel producing companies, AISI representatives, an International Trade Administration representative, and two people from the Customs Fraud Investigation Center. The group meets approximately once a month at AISI offices in Washington, D.C. The last meeting was held on March 27, 1985. Discussion topics included possible evasion of the Voluntary Restraints Agreements and the types of intelligence which could assist the Customs Service in prompt detection of the scheme and to interdict the merchandise before release from Customs' custody.

Senator DANFORTH. Thank you, Commissioner. Thank you, Mr. De Angelus. Next, we have a panel. Mr. Henry Parsons, General Electric Co., the director of American Association of Exporters and Importers, Kenneth Kumm, The Joint Industry Group, and Thomas Teofilo, chairman of the Los Angeles Alliance for Equitable Customs Staffing. Mr. Parsons?

## STATEMENT OF W. HENRY PARSONS, CORPORATE MANAGER, CUSTOMS, GENERAL ELECTRIC CO., BRIDGEPORT, CT, AND DIRECTOR, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, NEW YORK, NY

Mr. PARSONS. Good morning, Mr. Chairman and members of the subcommittee. My name is W. Henry Parsons. I am the corporate manager of customs at General Electric Co. I am here today, however, to present testimony on behalf of the American Association of Exporters and Importers of which I am a director. I am accompanied this morning by Robert J. Leo, the association's staff attorney. The association is a national organization comprising some 1,100 U.S. member firms.

Our members import and export a broad range of products and also include many in the service industries, such as custom house brokers, freight forwarders, banks, attorneys, and insurance carriers. We are pleased to have this opportunity to comment on the U.S. Customs Service budget for fiscal year 1986. Later in our testimony, we will also talk briefly on the budget for the Office of the U.S. Trade Representative.

Mr. Chairman, I am sure that you and your committee will appreciate that the efficient operation of the U.S. Customs Service is a matter of the utmost concern to both American importers and to American exporters alike. Our members interface with the Customs Service in the field on a daily basis in the transaction of complex importing and exporting operations, in the paying of customs duties, dealing with quotas, and with Operation Exodus. As the closest observer of the operations of the U.S. Customs Service, our association can say with certainty and with confidence that the U.S. Customs resources are strained to the absolute limit and that there is no slack to be pulled in.

The proposed cuts in the U.S. Customs Service budget for 1986 will exacerbate dramatically the problems faced by our members. The delay problem will be compounded. Manpower shortage problems will proliferate throughout the Customs Service. Our members on the west coast, for instance, complain bitterly of the dearth of customs manpower and the accompanying problems which are now manifest particularly in the port of Los Angeles.

The proposed budget for fiscal year 1986 would necessitate a reduction of over 800 full-time personnel when, in fact, more import specialists and inspectors are needed to ensure the bare minimum of service to the international trade community. Programs such as customs automation and the development of a periodic entry system would help to make the Service more efficient but would only partially resolve the problem. The primary responsibility of the U.S. Customs Service should be the administration of the trade and tariff laws. There is now a trend to view the Customs Service primarily as a narcotics interdiction agency. While interdiction of narcotics certainly is our Nation's most pressing social objective, it is not the most efficient or appropriate use of the Customs Service's human and other resources.

At the present, staffing and resource levels, Customs cannot be expected to continue as the major drug interdiction agency, the second largest revenue raiser, and at the same time, to enforce the regulations of some 40 other Federal agencies. If the Service is expected to continue in each of those roles, then it must be given adequate resources to do those important jobs. Certainly, both its funding and its organization for drug interdiction should be separated from its role in international commerce. The public interest demands such a change. Our interest is in the efficient flow of trade, both export and import. The Customs Service has an important responsibility in ensuring the flow of goods in international commerce and the enforcement of the country's trade and tariff laws. The public interest demands that these be the primary mission of the U.S. Customs Service. In the association's view, the Customs Service does not now have the resources to meet other responsibilities.

Our trading partners, whilst dealing with the problems of a burgeoning international trade through innovation and by streamlining procedures, show no inclination to cut back on the resources of their customs services. Mr. Chairman, I turn now briefly to the appropriation proposal for the Office of the U.S. Trade Representative.

The recent hearings on this very same subject before the House subcommittee indicated that, through error, there is no provision in the proposed appropriation for the operations of the Office of the U.S. Trade Representative for bringing to fruition the international adoption of the Harmonized System. This international system for the nomenclature and enumeration of goods in international trade is now in its final stages. It is an urgently needed tool for the facilitation of international trade.

The United States cannot afford not to be in the forefront of this drive. The money required for completion of this mission is small, but given the already small appropriation for all the work of the Trade Representative's office, funds for completion of the Harmonized System could only be found within that budget at the expense of other equally pressing activities. Our association, therefore, urges that the appropriations be increased appropriately. Thank you, sir, for the opportunity to present our views. We shall be happy to answer any questions.

Senator **Danforth**. Thank you, Mr. Parsons.

[Mr. Parsons' prepared statement follows:]

### TESTIMONY OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS BY W. HENRY PARSONS, DIRECTOR

#### SUMMARY

The American Association of Exporters & Importers (the Association) with approximately 1,100 U.S. importer and exporter members including custom house brokers and other service firms, all interfacing daily with U.S. Customs field locations and with District, Regional and National HQ's, is the closest observer of U.S. customs operations.

The Association finds the Customs Service resources, particularly manpower resources, strained to the absolute limit. There is no slack to pull in.

Proposed cuts in appropriations will exacerbate problems of delay and uncertainty already faced by American importers and exporters. This situation is particularly critical on the West Coast, especially in Los Angeles.

The prime responsibility and function of the U.S. Customs Service should be the administration of the international trade laws. The Association sees the interdiction of narcotics as our nation's most pressing social objective, but considers that this aspect of customs mission should be organized and funded separately.

Regarding the appropriations for the operations of the Office of the U.S. Trade Representative, the Association points out that hearings before the House subcommittee indicated that funding for completion and international adoption of the Harmonized System had, due to error, been omitted. The Association urges that this relatively small item be restored to the appropriation.

Good morning Mr. Chairman and members of the subcommittee. My name is W. Henry Parsons. I am the corporate manager of customs at General Electric Company. I am here today however, to present testimony on behalf of the American Association of Exporters and Importers (hereinafter the Association), of which I am a member of the Board of Directors. I am accompanied this morning by Robert J. Leo, the Association's staff attorney. The Association is a national organization comprising some 1,100 U.S. member firms.

Our members import and export a broad range of products including chemicals, machinery, electronics, textiles and apparel, footwear, foodstuff, automobiles, wines and spirits, and many other articles and commodities. Association members include many in the service industries serving the international trade community, such as custom house brokers, freight forwarders, banks, attorneys, and insurance carriers.

We are pleased to have this opportunity to comment on the US Custom Service Budget for fiscal 1986. Later in our testimony we will also talk briefly on the budget for the Office of the United States Trade Representative.

Mr. Chairman, I am sure that you and your committee will appreciate that the efficient operation of the United States Customs Service is a matter of the utmost concern to both American importers and American exporters alike. Our members interface with the Customs Service in the field on a daily basis in the transaction of complex importing and exporting operations, in the paying of customs duties, dealing with quotas, and with operation Exodus.

As an Association our leadership deals with the management of the Customs Service in a mutually respectful, honest and direct, if not always harmonious, manner.

This is a long-standing relationship, which often involves resolving various problems and disagreements, and, often, cooperation in developing new programs and procedures for the benefit of both sides. Sometimes we fail to reach agreement, but often we succeed, and the United States is the beneficiary.

As a close observer, in fact as the closest observer of the operations of the United States Customs Service, our Association can say with certainty and with confidence that the Customs Service's resources are strained to the absolute limit, and that there is no slack to be pulled in.

The proposed cuts in the Customs Service budget for 1986 will exacerbate dramatically the problems faced by our members. The delay problem will be compounded. Manpower shortage problems will proliferate throughout the Customs Service. Our members on the West Coast, complain bitterly of the dearth of Customs manpower, and the accompanying problems, which are now manifest in the Port of Los Angeles.

The Association will hold a one-day conference shortly on this very problem as it effects textile importers and retailers who experience continuing delays in clearing goods. The proposed budget for Fiscal Year 1986 would necessitate a reduction of over 800 full-time personnel when in fact, more import specialists and inspectors are needed to ensure the bare minimum of service to the international trade community. Programs such as Customs automation, and the development of a periodic entry system would help to make the Service more efficient but would only partially resolve the problem. The Association believes that the Customs Service urgently needs more trained personnel at appropriate levels of responsibility; budget cuts would worsen the current shortages and lack of personnel will continue to slow down the flow of trade.

The primary responsibility of the Custom Service should be the administration of the trade laws. There is now an unfortunate trend to view the Customs Service primarily as a narcotics interdiction agency. While interdiction of narcotics is our most pressing social objective, it is not the most efficient or appropriate use of the Customs Service's human and other resources. At present staffing and resource levels, Customs cannot be expected to continue as the major drug interdiction agency, the second leading revenue raiser, and at the same time to enforce the regulations of forty-odd other federal agencies. If the Service is expected to continue in each of these roles, then it must be given adequate resources to do those important jobs. Certainly both its funding and organization for drug interdiction should be separated from its role in international commerce. The public interest demands such a change.

Our interest is in the efficient flow of trade, both export and import. The Customs Service has an important responsibility in ensuring the flow of goods in international commerce, and the enforcement of the country's trade laws. The public interest demands that these be the primary mission of the Customs Service. In AAEI's view the Customs Service does not now have the resources necessary to meet other responsibilities.

The withholding of funds from our Customs Service at a time when international trade needs to be supported and expanded is a major concern to all trade Associations. Our trading partners, whilst dealing with the problems of a burgeoning international trade through innovation and by streamlining procedures, show no inclination to cut back on the resources of their Customs Services.

Mr. Chairman, I turn now, briefly, to the appropriation proposal for the Office of the United States Trade Representative. I will not dwell on the importance and diversity of the missions assigned to that office, nor on the dedication and achievements of that Office. All, I am sure are well known to you. Certainly the small budget allocated to that office is a bargain.

Mr. Chairman, the hearings on this very same subject before the House subcommittee indicated that, through error, there is no provision in the proposed appropriation for the operations of the Office of the US Trade Representative in bringing to fruition the international adoption of the Harmonized System. This international system for the nomenclature and enumeration of goods in international trade is now in its final stages. It is an urgently needed tool for the facilitation of international trade. The United States cannot afford not to be in the forefront of this drive. The money required for completion of this mission is small, but given the already small appropriation for all the work of the Trade Representatives office, funds for completion of the Harmonized Systems could only be found within that budget at the expense of other equally pressing activities. Our Association therefore, urges the appropriation be increased appropriately.

On behalf of the members of the American Association of Exporters and Importers, I thank you for the opportunity to present our views. We trust that our comments will prove useful to the Subcommittee and will be happy to answer any questions you may have.

Senator **Danforth**. Mr. Kumm.

## STATEMENT OF KENNETH KUMM, CHAIRMAN, THE JOINT INDUSTRY GROUP, WASHINGTON, DC

Mr. **Kumm**. Mr. Chairman, members of the Subcommittee on International Trade, my name is Kenneth A. Kumm, chairman of the Joint Industry Group. I am accompanied today by Joe De Rose and David Elliott. Both are former chairmen of the Joint Industry Group. The Joint Industry Group is a coalition of over 50 trade associations, businesses, and law firms which are deeply concerned with the operation of the Customs Service. We welcome this opportunity to comment on customs and trade issues relevant to the Finance Committee's considerations of the authorization of funds for the Customs Service.

In our written statement we address five issues which are related to budgetary pressures and the need for more balance in the use of customs resources. These issues are, No 1, the imbalance caused by the concentration of too much customs financial and human resources on enforcement; No. 2, the irrationality of imposing user's fees on basic customs functions; No. 3, the need for a periodic entry system; No. 4, actions taken by the Customs Service to change the country of origin rules without reference to the legislative process; and the Customs Service attempt to reduce the importance of its own Office of Regulations and Rulings. In my summary statement this morning, I will address three of these issues: imbalanced use of customs resources, the need for a periodic entry system, and the country of origin rules.

Under current budgetary pressures, achieving a balance in the use of human and financial resources between enforcement and the facilitation of commerce becomes difficult, given the growing immigration and drug interdiction and other border entry problems. It is hoped that the Finance Committee will exert its influence on the Customs Service to assure that there is appropriate balance between enforcement and trade facilitation. We recognize that the current budgetary situation will result in attempts to enhance revenues, reduce personnel, or both. Here an assessment should be made of the requirements placed upon Customs to enforce in excess of 100 statutes. Perhaps consideration should be given to providing Customs with the ability to charge other agencies for services rendered on their behalf. This might be one approach. The Joint Industry Group would emphasize a third alternative of increasing productivity in order to sustain performance requirements. One means of increasing the productivity of on-line customs officers is the periodic entry system.

The Joint Industry Group recommends a new overall system which we believe would yield sufficient savings to Customs and importers. Major savings would be derived from processing entries and collecting duties on a consolidated and a periodic basis rather than on the current individual shipment and individual entry basis. It would permit an importer or broker to submit a single entry summary to cover all entries of merchandise within the customs district during the statutory period. Import duties would be paid once a month.

This would dramatically decrease the number of entry documents and checks that importers would have to prepare and Customs would have to process. Further increases in productivity from our proposal would result from a centralization of the processing of entry summary. It would not affect customs inspection and enforcement responsibility or the timely collection of import statistics. We are convinced that the application of the system can increase productivity and improve administration of entry and clearance procedures in a manner that conserves scarce budgetary resources and facilitates commerce.

On the country of origin issue, changes in the country of origin rules have many implications for trading operations, both day-today and long-term. On August 3, 1984 the Customs Service issued interim regulation amendments effective September 7, 1984, which made unprecedented changes in internationally accepted country of origin principles applying to textiles and apparel products. It is the position of the Joint Industry Group that the Customs Service should enforce the traditional and well-recognized principle extensively developed in case law that an article of commerce should be regarded as having originated in that country where it is fully grown, produced or manufactured, or in the case of an article not wholly in the growth or a product in the manufacture of one country, the article should be regarded as having originated in that country where it was last substantially transformed.

The traditional criteria for determining whether transformation has been substantial is that the article must have been transformed to a new article of commerce having a different name, character, and use. The Joint Industry Group understands that departures from that fundamental principle may occur when articles enter the United States under preferential tariff arrangements or that are subject to quantitative restrictions. The Joint Industry Group opposes applying such new criteria aimed at meeting such things as the special problems of import quotas, export restraints, or preferential tariffs, to the determination of the country of origin for the purpose of ordinary, most-favored nation trade. Further, it is the position of the Joint Industry Group that only Congress can determine if changes should be made in the basic determination of country of origin. Thank you very much.

Senator DANFORTH. Thank you, sir.

[Mr. Kumm's prepared statement follows:]

## SUMMARY OF STATEMENT BY THE JOINT INDUSTRY GROUP ON CUSTOMS AUTHORIZATION FOR FISCAL YEAR 1986 BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, COMMITTEE ON FINANCE, APRIL 3, 1985.

The Joint Industry Group is a coalition of over fifty businesses, trade associations and law firms which, being involved in international trade, are deeply concerned with the operations of the Customs Service.

At a time of budgetary pressures the Joint Industry Group is concerned that the growing immigration, drug and other enforcement problems will result in a lack of balance in the use of the financial and human resources of the Customs Service. The Joint Industry Group urges the Committee on Finance to use the authorization process to assure that the Customs Service recognizes the importance of its role and maintains adequate support for the facilitation of trade.

The Joint Industry Group opposes user's fees on normal customs services provided in the course of entering goods. We understand such a user's fee proposal may soon be submitted to the Congress. In lieu of such a fee we would urge the adoption of more efficient procedures in the entry process, specifically, the periodic entry system. This system, proposed by the Joint Industry Group in 1982, would permit an importer or broker to submit a single entry summary to cover all entries of merchandise within a Customs District during a prescribed period. This would drastically reduce the number of entry documents and other financial transactions in a manner consistent with modern and sound record keeping capabilities and payment practices.

Changes in Country of Origin rules are being made by the Customs Service without adequate weighing of the economic costs and operational impacts. Departures from well-established principal and practice of "substantial transformation" for articles not wholly the product, growth or manufacture of the country of export may be necessary for determining preferential or discriminatory access. Such special rules should be established under statutes authorizing such privileged or limited access, and should not be made to apply to ordinary "MFN" trade. Any further changes should await the ITC report on country of origin practices in other countries.

The Joint Industry Group firmly supports a strong independent Office of Regulations and Rulings in Customs Headquarters to provide uniform and objective interpretations of Customs law for the business community. The authorization bill should contain language requiring a 90 prior notice to the relevant Congressional Committees for any changes in the status of the Office of Regulations and Rulings.

## STATEMENT OF KENNETH A. KUMM FOR THE JOINT INDUSTRY GROUP BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE COMMITTEE ON FINANCE, APRIL 3, 1985

Mr. Chairman, Members of the Subcommittee on International Trade, my name is Kenneth A. Kumm, Chairman of the Joint Industry Group and representative of the 3M Company on the Joint Industry Group. I am accompanied today by Joseph DeRose, a representative of IBM, and David J. Elliott, a representative of Procter and Gamble, on the Joint Industry Group. I would add that both are former chairmen of the Joint Industry Group.

The Joint Industry Group is a coalition of over fifty trade associations, businesses and law firms which, being involved in international trade, are deeply concerned with operations of the Customs Service.

We welcome this opportunity to comment on customs and trade issues which are relevant to the Finance Committee's consideration of the authorization of funds for the Customs Service, as well as to the Subcommittee's oversight responsibility for customs and trade legislation and administration.

While the Joint Industry Group has not taken a position with respect to the funding of specific Customs operations in the FY 1986 Budget, we would like to address five issues which are related to budgetary pressures and the need for balance in the use of Customs resources. These issues are:

(1) The imbalance caused by concentration of too much of Customs financial and human resources on enforcement;

(2) The irrationality of imposing user fees on basic Customs functions;

(3) The need for a periodic entry system;

(4) Actions taken by the Customs Service to change the Country of Origin Rules without reference to the legislative process; and

(5) The Customs Service's attempts to reduce the importance of its own Office of Regulations and Rulings.

Because most of our concerns involve a balanced use of Customs resources let me turn to that overall issue first.

### BALANCED USE OF CUSTOMS RESOURCES

With growing immigration and drug interdiction problems and other illegal border activities these problems entail, enforcement activities of the Customs Service, with its attendant press coverage, tends to overshadow the other statutory functions of Customs, including the facilitation of commerce. Under current budgetary pressures achieving a balance in the utilization of human and financial resources between enforcement and facilitation of commerce becomes even more difficult. For example, the geographic balance among the uses of Customs resources is very important. The recent growth in the backlog of Customs entries in the Port of Los Angeles in face of a decline in available resources is a case in point. It is hoped that the Finance Committee in reporting its authorizing legislation and in conducting its Customs oversight activities will exert its influence on the Customs Service to assure the appropriate balance between enforcement and trade facilitation.

### USER'S FEES

Despite the fact that Customs revenues vastly exceed the budgetary requirements of the Customs Service, the budgeted funds have been reduced further. Under these circumstances there may be an attempt to seek "revenue enhancement" in one or more forms. The Joint Industry Group is informed that the Customs Service is preparing for consideration in the Treasury Department and by OMB, a legislative package of user's fees on customs services. It is understood that this approach would impose a fee on all entries of goods into the United States. Such "fees" constitute a charge on importers for following Customs procedures and requirements. As such it could be likened to the Internal Revenue Service attempting to charge citizens for collecting their income tax. The Joint Industry Committee recommends that the Subcommittee resist any such "user's fee" recommendation from whatever quarter, and, if necessary, include such negative recommendation in its budgetary comment.

Budgetary reductions are usually interpreted as requiring a reduction in personnel and functions. The Joint Industry Group takes issue with this kind of reaction, particularly as it applies to the Customs Service. In industry we regard reductions in budgets as requiring better productivity without sacrifice of functional responsibility. Thus, while we recognize that the current budgetary situation will result in attempts to enhance revenues, reduce personnel, or both, the Joint Industry Group would emphasize the third alternative of increasing productivity in order to sustain performance requirements. One means of increasing the productivity of on-line Customs officers is the periodic entry system.

### NEED FOR PERIODIC ENTRY SYSTEM

Both the U.S. Customs Service and the U.S. importing community are being inundated by the volume of paperwork required to satisfy the current procedures for processing imports and paying the duties assessed. The Customs Service is processing four million entries from over 190,000 importers. Each of these entries, I repeat, each of these entries, whether made by a small broker for a variety of clients or a large importer entering the same product or group of products again and again, requires the same numerous supporting documents—bills of lading, invoices, packing lists, entry summaries, various certificates, etc.—with duties, if any, separately assessed and paid on each entry.

The Customs Service has been obliged to process each one of this huge and growing volume of entries with substantially reduced manpower and financial resources, a budgetary condition likely to continue indefinitely.

The need to institute changes in procedures to manage this enormous flow of paperwork is recognized by Customs and importers alike. Customs has responded by increasing its automated information processing capability and by establishing alternative approaches such as the bypass program, Automated Broker Interface and the Model Ports Program. The Joint Industry Group believes that these are positive steps, but they are insufficient to achieve the magnitude of productivity improvements needed to cope effectively with the resource problem.

In early 1982 the Joint Industry Group recommended to Customs a new overall system which we believe would yield significant savings to Customs and importers. The major savings would be derived from processing entries and collecting duties on a consolidated and periodic basis rather than on the current individual shipment and individual entry basis.

It would permit an importer or broker to submit a single entry summary to cover all entries of merchandise within a Customs District (ultimately without any geographic limitation) during the statutory period (initially, ten days, ultimately, monthly). Import duties would be paid once a month on a date (probably the 15th of the month) that would not disrupt the present level of revenue flow to Customs. This would dramatically decrease the number of entry documents and checks that importers would have to prepare and Customs would have to process.

Further increases in productivity from our proposal would result from a centralization of processing of entry summaries. Those importers electing to utilize this procedure would be established as accounts. All processing of entry summaries, questions regarding classification and appraisement, and liquidations for merchandise imported by the account would be done by an account import specialist or team of specialists. The account approach would allow Customs to organize its processing of entry summaries by importer as well as by commodity and not by where an importation happened to be made.

Customs analysis of importations shows that a mere 3.3 percent of all importers file 62.2 percent of all entries. Thus, we believe that a more rational way of processing the entries of these approximatley 5,000 major importers would produce significant productivity improvements and allow Customs to provide smaller or infrequent importers with more specialized treatment. Also this approach to centralized processing can be accomplished without redeploying Customs' personnel as is often the case in budgetary reductions.

Since our proposal does not change in any way the initial steps in securing the release of merchandise and the filing of the entry, it does not affect Custom's inspection and enforcement responsibilities or the timely collection of import statistics.

Our proposal would establish an optional system designed to deal effectively with large volumes of entries by major importers. As such, it would impose on the importers that elect to use it a higher standard of performance than for those using the existing procedure. This higher standard would be validated by Customs through an expanded and more sophisticated use of audits. As a voluntary and alternative procedure, no importers would be threatened or burdened by it. Moreover, Customs would be able to deny its use by those importers who fail to perform to the higher standards. On the other hand, nonusers of the periodic entry system would have nothing to fear since present procedures would remain available, presumably in the context of better resource balance within the Customs Service.

In response to our proposal, the Customs Service conducted a test of a very limited application of the account concept. For two volunteer test companies, 3M and Volkswagen of America, Customs assigned an account import specialist who served in an advisory capacity to other Customs officials with regard to classification and appraisement of the account companies' imports. The account import specialists were the principal contacts with and for the companies but were given no further responsibilities to process their entries. The test, which ran from February through December 1983, was important as a first step, but it was so modest that it cannot be considered a valid indicator of the potential for significant productivity improvements which we are confident would be achieved if our overall recommendations were implemented.

To the extent that these account specialists were added, in an advisory capacity, to the existing structure this naturally increased processing costs and did not fairly test the productivity potential of the actual proposal. Up to now the Customs Service has evidenced something less than enthusiasm for the system, as indicated by its unwillingness to conduct a comprehensive and meaningful test of our total concept.

We will be giad to submit for the record a copy of the periodic merchandise entry and duty payment proposal which the Joint Industry Group submitted to Customs. We recommend that the Subcommittee lend its voice toward increasing productivity in the Customs Service by adopting, after appropriate tests, the periodic merchandise entry and duty payment system proposed by the Joint Industry Group. We are convinced that application of the system can increase productivity and improve the administration of entry and clearance procedures in a manner which facilitates commerce.

## COUNTRY OF ORIGIN

Changes in Country of Origin rules have many implications for trading operations, both day to day and long term. Because of the importance of those implications, let me discuss the concerns of the Joint Industry Group with the actions of the Customs Service respecting Country of Origin Rules.

On August 3, 1984, the Customs Service issued "interim" regulation amendments (49 Fed. Reg. 31248) effective September 7, 1984 which made unprecedented changes in internationally accepted country-of-origin principles applying to textile and apparel products. Aimed at "circumvention" of bilateral textile and apparel import quotas, there was no attempt to measure the costs of these "regulatory amendments" in terms of immediate business operations or longer term economic impacts.

In an October 5 ruling, Customs announced its intention to apply the principles in these textile regulations to all commodities for duty, marking, and all other purposes related to the importation of foreign-manufactured products into the United States. Customs officials have reiterated this intention—notwithstanding the fact that the vast majority of over 600 comments submitted in the rulemaking proceeding by U.S. retailers, shippers, importers from a variety of industries, Members of Congress, and foreign governments have vehemently opposed the regulations.

The Customs Service is seeking to change the rules for determining Country of Origin in a manner that makes it impossible to examine the economic costs and operational impacts of those changes.

The Courts have upheld the right of the Customs Service to establish special origin rules for textile quota merchandise under the authority to enforce bilateral textile agreements. However, the Customs Service claims these same changes conform to Court rulings with respect to the principle of "substantial transformation". We cannot agree with this reading of the statute and of the case law.

The Joint Industry Group is prepared to submit a listing case law to demonstrate that the changes in regulation do not conform to court rulings, made recently or made in the past. Moreover, the Court Decisions on the right of the Customs Service to issue Rules for textile quota merchandise did not pass on the substance of those rules under existing case law.

Because of what has transpired with respect to the regulation on Country of Origin on imports of textile products and what Customs has indicated will transpire with respect to the regulation on Country of Origin for all Customs purposes, we feel there is a need for Congress to determine if a change in the law regarding Country of Origin is required.

It is the position of the Joint Industry Group that the Customs Service should enforce the traditional and well-recognized principle, extensively developed in case law, that an article of commerce should be regarded as having originated in that country where it was wholly grown, produced or manufactured. Or, in the case of an article not wholly the growth, product of manufacture of one country, the article should be regarded as having originated in that country where it was last substantially transformed.

The traditional criteria for determining whether transformation has been "substantial" is that the article must have been transformed to a new article of commerce having a different name, character and use. The Joint Industry Group understands that departures from that fundamental principle may occur when articles enter the United States under preferential tariff arrangements or when they are subject to quantitative restrictions. It may well be that the special criteria established for determining entry may require special rules governing preferential or discriminatory access. The Joint Industry Group opposes applying such new criteria—aimed at meeting the special problems of import quotas, export restraints or preferential tariffs—to the determination of country of origin for the purpose of ordinary "MFN" trade. Further, it is the position of the Joint Industry Group that only Congress can determine if changes should be made in the basic determination of Country of Origin. Therefore, we urge the Subcommittee to take the necessary steps to instruct the Customs Service to withhold changes in its regulation until the Subcommittee can make that judgment. This is particularly important in light of the study of country rules of origin practices in all countries which is not being completed by the U.S. International Trade Commission.

### OFFICE OF REGULATIONS AND RULINGS

The remarks with respect to amendments to the regulation on Country of Origin determinations should not be interpreted as an attack on the Office of Regulations and Rulings. Indeed, the Joint Industry Group reiterates its support of a strong, independent Office of Regulations and Rulings in Customs Headquarters to provide uniform and objective interpretations of Customs laws for the business community. We do not know what conclusions have been reached, if any, in a study that we understand is being conducted within Customs to consider, among other options, the transfer of the functions of that Office to the Office of Regional Counsel in New York, in conjunction with a determination of whether Customs Headquarters have been "over-lenient" in overruling decisions made in the field offices in the matter of valuation and classification as well as penalties.

The international trade community is concerned that the atmosphere of enforcement pervading the Customs Service, as evidenced by a number of public statements by Customs officials, could impinge upon the independence of the Office of Regulations and Rulings in fulfilling its proper quasijudicial role.

Further, it has been the usual practice of local Customs officials, sanctioned by Headquarters, to resolve doubts in favor of "protecting the revenue". On administrative review, however, Headquarters, at least in theory, has attempted to resolve classification and value questions in accordance with existing law. In other words a balanced approach to Customs administration. Any change in policy requiring an aggressive support by legal reviewers of a parochial "Customs position" would be contrary to fairness and equity, work against good relations with the entire import community, substantially increase litigation, and result in increased costs for Customs administration and in higher consumer costs for imported products.

In terms of the existing budgetary situation the ORR staff has already been reduced substantially by size, by budget reductions and by attrition. A proposal to disperse these officials from Customs Headquarters to the Regional Counsel's office would greatly diminish efforts to achieve and maintain uniformity of treatment of duty assessments on imports, required by the Constitution.

The Joint Industry Group is concerned that further budgetary pressures will lead to further temptation to diminish or bring to an end through relocation a strong and independent Office of Regulations and Rulings. Therefore, we respectfully suggest that the 1986 Customs Authorization Bill preclude changes in the status of the Office of Regulations and Rulings without 90 days prior notice to and consultation with the authorizing Committees in both Houses of the Congress.

On behalf of the Joint Industry Group I would like to renew our longstanding offer to cooperate with the Subcommittee on Trade in terms of both its legislative and oversight responsibilities in any way that we can be helpful.

Thank you.

Senator **Danforth**. Mr. Teofilo.

## STATEMENT OF THOMAS N. TEOFILO, DIRECTOR OF TRADE DEVELOPMENT FOR THE PORT OF LONG BEACH, CA, ON BEHALF OF THE LOS ANGELES ALLIANCE FOR EQUITABLE CUSTOMS STAFFING, LOS ANGELES, CA

Mr. **Teofilo**. Mr. Chairman, I am Tom Teofilo, director of trade development for the Port of Long Beach, and I appear today on behalf of the Los Angeles Alliance for Equitable Customs Staffing, a group which represents many parties in the international trade community. With me is Jane Beseda, an international trade manager for Coopers and Lybrand. She previously had 15 years of experience with the U.S. Customs Service in Los Angeles, and her comments will be based on her personal observations as a customs manager.

You will find a list of the members of our alliance on the attached testimony packet. Thank you for allowing me this opportunity to present our views of the alliance to this committee today. The Ports of Long Beach and Los Angeles in the San Pedro Bay have been experiencing a phenomenal growth of cargo volume. Just this last year, we saw a 46-percent increase in containerized cargo through the Port of Long Beach alone. We are proud of our capability to service the exporter and importer needs of the Los Angeles basin, the Western States, and in growing proportions the Midwest, Gulf, and East Coast through expanding intermodal capabilities. Our growth far exceeds the national average as the Pacific trade has taken over the lead from the Atlantic trade for the United States in the last year.

In the past 5 years, the ports in the San Pedro Bay have had an increased tonnage of 40 percent, while Customs entries have increased 60 percent. This amounted to 643,000 formal entries in fiscal year 1984. The Pacific rim has our focused attention, yet as we plan to continue to keep pace with this growth, we have been extremely concerned that the U.S. Customs Service has failed to recognize or meet the current needs in the San Pedro Harbor complex.

As you know, the U.S. Customs collections for fiscal year 1984 equalled $12.5 billion. Of that, the Los Angeles Customs District was responsible for collecting $2.1 billion or 17 percent of the total. Yet the Los Angeles district presently has a staff of only 554, equaling just 4 percent of the Service's average positions. In the last year, we have logged more complaints from the trading community than ever before. The complaints concern delays in clearing cargo, both quota and nonquota goods. We concur with industry experts who indicate that these delays are primarily caused by an insufficient number of cargo inspectors and qualified import specialists. This statement is not new.

We have for many years noted the U.S. Customs Service has not remedied this situation. We believe that the Los Angeles district director of customs has made every effort possible to meet the increasing demand for service. We do not blame the individual customs inspectors for these delays. The inspectors that we have in the Los Angeles district are some of the best in the Service. Their productivity is the highest in the system, but there simply is just not enough of them to meet the increasing volume challenging them at this time. We believe that more staff is needed in the Los Angeles district to speed clearance of entries, quota clearances, and cargo inspections. We believe that 150 additional positions are required to meet the present traffic demand in the district, and you will note my attachment.

The increase in our traffic flow, plus the added factor of additional quota restrictions this year, will add up to new levels of workload demand, and therefore, any use of historic measures of staffing in the customs district must take this into account when the Customs Service evaluates their staffing levels. Congress has established new levels of import quota restrictions, and we expect a 400-percent increase in the items requiring quota clearance through the port this year.

The clearance of quota goods through the local district office takes substantially longer than the clearance and release of nonquota goods. Our present time to clear nonquota items through the ports of Los Angeles and Long Beach has eroded to 5 to 7 days. On the quota items, it is anywhere from 7 to 15 days. This is a dramatic increase over the previous years and is a direct result of the reduction of customs clearance personnel, which has been documented to have taken place in the Los Angeles district.

The Los Angeles area is also a leader in high tech exports, and the Customs Service has increased "exodus" operation responsibilities in this area as well. Our cargo projections indicate a doubling in import and export tonnage in the next 10 years. The Customs Service is approaching the future properly through the study and inauguration of computerized programs such as the Automated Clearance System, the Automated Broker Interface, and the Automated Manifest System, and the alliance applauds Customs' progressive thinking in this area and will certainly support the Customs Service wherever possible to implement these systems.

However, the computerized structure of tomorrow is not helping to meet the current traffic flow demands of today. We do not want to see our present shippers divert their cargo elsewhere and thereby lose the transportation efficiencies they have developed over the past years. We urge your subcommittee to increase authorization levels and thereby increase the number of Customs personnel in all commercially oriented jobs: inspectors, import specialists, and clerical functions, to ensure sufficient staff to meet the present volume of cargo flow through the Los Angeles district.

We also believe it is necessary to establish an annual system of review in order to more equitably allocate resources to respond to the growth of volume in the commercial trade. Finally, please let me direct your attention to my written comments which also incorporate specific concerns of three major retailers that utilize the Los Angeles and Long Beach gateway. They are Sears, J.C. Penney, and Montgomery Ward. Thank you.

Senator DANFORTH. Thank you all very much for your testimony.

[Mr. Teofilo's prepared statement follows:]

### STATEMENT BY THOMAS N. TEOFILO, REPRESENTING THE LOS ANGELES ALLIANCE FOR EQUITABLE CUSTOMS STAFFING

Mr. Chairman, I am Tom Teofilo, Director Of Trade Development for the Port of Long Beach, and I appear today on behalf of The Los Angeles Alliance For Equitable Customs Staffing, a group which represents many parties in the international trade community. With me is Jane Beseda, an International Trade Manager with Coopers and Lybrand. She previously had 15 years of experience with the U.S. Customs Service in Los Angeles and her comments will be based on her personal observations as a Customs Manager. You will find a list of members attached to our testimony packet. Thank you for allowing me this opportunity to present the views of this alliance to this committee today.

The Ports of Long Beach and Los Angeles in the San Pedro Bay have been experiencing a phenomenal growth in cargo volume. Just this last year we saw a 46% increase in containerized cargo through the port of Long Beach alone. We are proud of our capability to service the exporter/importer needs of the Los Angeles basin, Western States and, in growing proportions, the Midwest, Gulf and East Coast through expanding intermodal capabilities.

Our growth far exceeds the national average as Pacific trade has taken a lead over Atlantic trade for the United States in the last year. In the past five years in the Ports of The San Pedro Bay, import tonnage has increased 40%, while Customs entries have increased 60%. This amounted to 643,000 formal entries in FY 1984.

The Pacific rim has our focused attention, yet as we plan to continue to keep pace with this growth we have been extremely concerned that the U.S. Customs Service has failed to recognize or meet the current needs in the San Pedro Harbor complex. As you know, total U.S. Customs collections for fiscal 1984 equalled $12.5 billion. Of that, the Los Angeles Customs District was responsible for collecting $2.1 billion or 17% of the total. Yet, the Los Angeles District presently has a staff of 554, equalling just 4% of the service's average positions.

In the last year, we have logged more complaints from the trading community than ever before. The complaints concern delays in clearing cargo, both quota and non-quota goods. We concur with industry experts who indicate that these delays are primarily caused by an insufficient number of cargo inspectors and qualified import specialists. This statement is not new. We have for many years noted that the U.S. Customs Service has not remedied this situation.

We believe that the Los Angeles District Director of Customs has made every effort possible to meet the increasing demand for service.

We do not blame the individual customs inspectors for these delays. The inspectors we have in the Los Angeles District are some of the best in the service. Their productivity is the highest in the system. There simply are not enough of them to meet the increasing volume challenging them now.

There appears to be an inequitable distribution of existing customs staff. We note one comparison of 104 inspectors in the Los Angeles seaport compared to 500 in the New York/Newark seaport district.

We believe that more staff is needed in the Los Angeles District to speed clearance of entries, quota cleaances and cargo inspections. We believe that 150 additional positions are required to meet the present traffic demand in the district. (Please see attachment F).

The increase in our traffic flow, plus the added factor of additional quota restrictions this year, will add up to new levels of workload demand and therefore, any use of historic measures of staffing in the district must take this into account when the Customs Service evaluates its staffing levels.

Congress has established new levels of import quota restrictions and we expect a 400% increase in items requiring quota clearance through the port this year. The clearance of quota goods through the local district office takes substantially longer than the clearance and release of non-quota goods, Our present time to clear non-quota items through the Ports of Los Angeles and Long Beach has eroded to five to seven days, and on the quota items, anywhere from seven to fifteen days. This is a dramatic increase over previous years and a direct result of the reduction of Customs clearance personnel which has been documented to have taken place in the Los Angeles district.

The Los Angeles area is also a leader in "high-tech" exports and the Customs service has increasing "EXODUS" operation responsibilities here as well.

Our cargo projections indicate a doubling in import and export tonnage in the next 10 years: The U.S. Customs Service is approaching the future properly through the study and inauguration of computerized programs such as Automated Clearance System (ACS), Automated Broker Interface (ABI), and the Automated Manifest System (AMS). The alliance applauds Customs' progressive thinking in this area and will support the Customs service wherever possible to implement these systems. However, the computerized structure of tomorrow is not helping to meet the current traffic flow demands of today. We do not want to see our present shippers divert their cargo elsewhere and thereby lose the transportation efficiencies they have developed over the past years.

We urge your subcommittee to increase authorization levels and thereby increase the number of customs personnel in all commercially oriented jobs (inspectors, import specalist and clerical function) to ensure sufficient staff to meet the present volume of cargo flow through the Los Angeles district.

We also believe it necessary to establish an annual system of review in order to more equitably allocate resources to respond to growth in the volume of commercial trade.

Please let me direct your attention to my written comments which also incorporate the specific concerns of three major retailers that utilize the Long Beach/Los Angeles gateway—Sears, J.C. Penney, and Montgomery Ward.

Thank you.

[Attachment A]

SEARS MERCHANDISE GROUP,
*Chicago IL, February 12, 1985.*

COMMISSIONER OF CUSTOMS,
*U.S. Customs Service,*
*Washington, DC.*

DEAR MR. COMMISSIONER: We welcome this opportunity to provide some input on the concerns Sears, along with other affected parties in the community have regarding the efficient and timely movement of cargo at the Ports of Long Beach/Long Angeles.

We must commend the service in its aggressive commitment of resources to solving the many operational bottlenecks the public and service face day to day, by implementation of the ACCEPT and ABI and myriad of other programs. We agree with this approach, as it not only addresses resource constraints, but also the swift and prompt movement of cargo within the parameters established by U.S. Customs.

Within this overall scheme we do however find certain inconsistencies in the timeliness of cargo clearance between various U.S. Customs ports. For example, our experience indicates that it takes anywhere from 2 to 20 days to clear cargo at Los Angeles with an average of 7 to 10 working days, compared to an average of 1 to 2 working days at the ports of New Orleans, Philadelphia and Boston. The significance here is not so much on the numbers but the tremendous disparities between ports. Specific facts and figures will be supplied upon request.

As importers who work directly with the Staff of U.S. Customs at Los Angeles, and also through our brokers, A. J. Fritz & Co., we find a strong level of commitment by U.S. Customs personnel at this port.

To understand, therefore, the reasons for such delays, we raise the following questions:

(1) Is the allocation of Customs resources, Los Angeles versus other ports of similar volume, equitable?

(2) Is there any significant degree of difference between the mix of cargo, Los Angeles versus other ports of similar volume?

(3) Is there a logistical problem in moving documents from one point to another to obtain final release of cargo in a manner consistent with such other ports?

We endorse the facts and figures being provided here today by the officials of the Port of Long Beach, the brokerage community and others, to shed light on some of the issues raised above.

It is our fervent hope that the service recognizes this tremendous cost burden on the importing community at Los Angeles, and addresses it in a manner consistent with the levels of operation at other similar United States ports.

We would be more than happy to work with you directly, and through our brokers, to help improve upon this situation.

Sincerely,

SUBASH AGARWAL, *Director—Customs.*

[Attachment B]

## STATEMENT OF LEO F. McKENNA, LOS ANGELES/LONG BEACH CUSTOMS

I am Leo F. McKenna, director of transportation for Montgomery Ward, the sixth largest retail chain, with annual sales of 6.5 billion dollars. I am responsible for both domestic and international transportation operations. I have been involved in transportation for 27 years.

Prior to 1983 our company imports were less than 4 percent of our merchandise purchases. This volume was basically handled through the Ports of Oakland, New York and Baltimore. Consolidations and closings of distribution facilities together with a major change in the handling of imports required the relocation of this activity. In addition to these major changes our import volume increased to a 15 percent level of purchases.

The decision to move the Far East Port-of-Entry from Oakland to Los Angeles/Long Beach was based on economics, service, and merchandise consumption of product in the Los Angeles market.

1. The combination of international with domestic products provides a reduced inland cost to move merchandise to our 18 major distribution centers throughout the United States. (200 million pounds in 1984).

2. Ocean service to Los Angeles from Hong Kong, Korea, Japan and Taiwan is excellent. Inland frequency to our 18 distribution points is greatly improved by the domestic-international combination.

3. 15 percent our retail volume is consumed in Los Angeles, San Diego and Phoenix. (36 of the 300 company stores).

All of the systems and operations set to handle 8,000 containers annually, have worked well. However, our biggest disappointment was the increase in port clearance time—6 days for non-quota and 12 days for quota.

The extended port clearance tends not only to cause port congestion (up to 175 containers in Los Angeles/Long Beach terminals), but merchandise delays, and totally unaccepable pier detention ($550,000 in 1984).

The ocean carriers and ports responded to our needs, but customs clearance delays continue! With a continued strong dollar our volume of import shipments will remain high. We need to improve customs clearance times. Although Long Beach/Los Angeles are still our first choice, we are now conducting a study to determine the economic feasibility of moving to other port facilities.

We need more customs inspectors or a major productivity improvement.

Listed below are three examples of the type of delays we have encountered.

1. Lexa Maersk, container #XTRU 4914779, entry submitted 2/1/85, DAD Received 2/12/85 (Customs requested sample)—11 days.

2. Ever Laurel, container #EISU 103467, entry submitted 1/28/85, DAD received 2/12/85, (Customs requested sample)—14 days.

3. Mossel Express, container #TOLU 2204392, entry submitted 2/4/85, DAD received 2/12/85—8 days.

Here are some problems in the Los Angeles Customs District that have been identified by our international transportation manager:

1. *Quota goods.*—Only four (4) clerks on the quota desk. This contributed to clearance delays up to two weeks, as well as an excessive container demurrage.

2. *Delivery authorizations.*—(DAD) a major time lapse between the accept site and the pier.

3. *Errors.*—Entries that require resubmission get lost in the system. This happens frequently. The system is not able to cope with exceptions.

4. *Location of inspectors.*—Consignee should know when the inspector is available to allow pick up and release in presence of an inspector, if necessary. Need location of exam sites.

In conclusion, we believe the root of many problems and delays is a shortage of qualified staff in the Los Angeles Customs District.

Montgomery Ward has made a commitment to Long Beach/Los Angeles. We support an effort to improve port clearance times. These improvements are critical as 80 percent of our imports now move through the Los Angeles Port-of-Entry.

We are anxious to know what steps will be taken to address our concern.

Thank you.

[Attachment C]

## STATEMENT OF J.C. PENNEY CO.

Congressman Roybal, Congressman Anderson and guests, I'm Steve Goldberg, attorney for J.C. Penney Co. With me today are C.T. Liang, our International Buying Coordinator and Rick Rocco, who works for our broker F.W. Myers.

J.C. Penney Co., has experienced a good working relationship with U.S. Customs over many years. We have business with virtually every major port in the U.S. The custom's personnel of the port of Los Angeles have made genuine and sincere efforts to timely process shipments for entry and release from customs custody. Nevertheless, there have been major delays in releasing our merchandise from customs.

The great increase in import traffic entering the port of Los Angeles in the last few years coupled with recent regulatory controls and the loss of many experienced customs personnel, w/o adequate replacements, and no actual increases in personnel, have created a crises situation for importers of foreign merchandise.

The standard for U.S. Customs to process a quota entry should be about six hours.

In reality all the other ports throughout the nation—and J.C. Penney transacts business with virtually all of them—process quota entries within two to three days.

Our greatest concern with the Port of Los Angeles is the massive time delays that we are experiencing in the processing of quota entries. The average processing for J.C. Penney quota entries in Los Angeles in January was 9 days. Some of these entries took 12 days from the date of submission to the date of clearance on the delivery authorization document. Additional delays of 6 to 7 days are experienced in quota entries involving an initial reject.

Let me give you an example of a recent problem we encountered. A quota entry submitted on December 31, 1984 was rejected on January 6, 1985. It was resubmitted on January 7, 1985 and, apparently the entry was lost. A duplicate entry was submitted on January 15, 1985 and was finally cleared on January 22, 1985—25 days from the date the merchandise arrived in the port.

There are two major factors which contribute to the delay problem:

1. The shortage of customs personnel to timely and properly process documentation.

2. The quota procedure involving the processing of the the entry through several different departments: Quota desk, C.S.T., operations for computer input, cashier, brokers box, and finally to the A.C.C.E.P.T. site.

What do these delays mean to J.C. Penney?

1. Additional outright costs in the form of unnecessary demurrage.

2. Cancellation of orders and loss of sales and unavailability of advertised merchandise. Virtually all of our imported merchandise is seasonal apparel. There are 90 days in each season. If we lose 20 days because of Customs delays, we have lost over one fifth of the season.

3. Additional costs of freight and warehouse handling on merchandise returned by the store to buyer because of untimely receipt as a result of customs clearance delays.

4. Finally, goods not received in time for the season are heavily marked down and sent back to the store as closeout merchandise.

We want to continue doing business with the Port of Los Angeles and we realize that the personnel are doing the best they can under difficult circumstances. We are asking that this crises situation at this port's custom's operations be resolved as quickly as possible by the federal government so that we can continue to do business here in a better and more efficient manner.

Thank you.

[Attachment D]

### PORT OF LONG BEACH INBOUND CARGO—1980–90

| | Total inbound [1] | Total general cargo (inbound) |
|---|---|---|
| 1979–80 | [2] 23,781,673 | [2] 7,659,552 |
| 1980–81 | [2] 24,532,875 | [2] 8,754,955 |
| 1981–82 | [2] 28,484,304 | [2] 10,676,996 |
| 1982–83 | [2] 28,034,225 | [2] 11,018,954 |
| 1983–84 | [2] 33,230,169 | [2] 15,825,359 |
| Estimate 1984–85 | 34.3–35.5 | 16.4–17.7 |
| Estimate 1985–86 | 36.6–37.7 | 18.2–19.5 |
| Estimate 1986–87 | 38.8–39.9 | 20.1–21.4 |
| Estimate 1987–88 | 41.1–42.2 | 21.9–23.3 |
| Estimate 1988–89 | 43.3–44.4 | 23.8–25.1 |
| Estimate 1989–90 | 45.5–46.7 | 25.7–27.0 |

[1] Includes bulk, break bulk, liquid bulk and general/containerized cargo.

[2] MRT=Metric revenue ton—normally 2,204.6 pounds or 1 cubic meter, whichever provides the greater number in each shipment.

[Attachment E]

### U.S. CUSTOMS SERVICE—REGIONAL STAFFING (CURRENT, JANUARY 1985) PACIFIC REGION

| District | Number | | | |
|---|---|---|---|---|
| | Inspectors | Import specialist | Other staff | Total |
| Seattle | 162 | 35 | 108 | 305 |
| Portland | 29 | 10 | 24 | 63 |
| San Francisco | 150 | 42 | 159 | 351 |
| Los Angeles | 295 | 94 | 165 | 554 |
| San Diego | 248 | 13 | 59 | 320 |
| Honolulu | 101 | 8 | 57 | 166 |
| Other Areas | | | | |
| Total | 1,015 | 202 | 1,181 | 2,398 |
| Los Angeles percent of region staffing | 29 | 46 | 14 | 23 |

[Attachment F]

### THE LOS ANGELES ALLIANCE FOR EQUITABLE CUSTOMS STAFFING—ESTIMATE OF ADDITIONAL PERSONNEL NEEDS—LOS ANGELES/LONG BEACH (COMMERCIAL OPERATIONS) FEB. 14, 1985

| | Seaport | Airport | Downtown Los Angeles |
|---|---|---|---|
| Inspectors | 35 | 25 | 3 |
| Quota and operations clerks | 16 | 10 | 4 |
| Input clerks (accept) | 18 | 0 | 3 |
| Commodity specialist | 25 | 6 | 4 |
| Cashier | 0 | 0 | 1 |
| Total | 94 | 41 | 15 |
| Total personnel urgently needed in Los Angeles/Long Beach District for commercial operations | | | 150 |

Senator **Danforth**. I just want to ask one question, and if you could give me a succinct answer—we have unfortunately five more witnesses, and we hope to wrap up about 12:30. All of you being experienced with the operation of the Customs Service, do you think that it is operating as efficiently and as effectively now as it was, say, 2 or 3 years ago?

Mr. **Parsons**. In some respects, yes. In other respects, no. Yes to the extent that they have made some progress in the streamlining of some of the procedures and introducing new systems. But certainly no to the extent that they still nevertheless have a backlog which is the result of further growth in imports and cutbacks in manpower. In other words, they are streamlining their systems, but have not been able to keep up with the increase in workload mainly because of the cuts in manpower.

Senator **Danforth**. Mr. Kumm?

Mr. **Kumm**. I would say Customs is a very efficient, effective organization as it is trying within the Government constraints to streamline their procedures to implement techniques similar to U.S. business in the use of data processing techniques. I would say that we have generally supported their activities in centralizing some of the services that have been decentralized around the country because of the efficiencies—they now have the use of the computer. There is a problem, however, in some of the adjustments that they have made in the Offices of Regulations and Rulings, which adversely affect good business planning.

Senator **Danforth**. Mr. Teofilo?

Mr. **Teofilo**. I will defer to Jane Beseda.

Ms. **Beseda**. I was a former Customs employee for 15 years, and I just left the Service in February. And my personal observation is that the customs employees themselves think that they are operating less efficiently than they were 2 or 3 years ago, mainly because of budget and staffing cuts. I think they all feel that they just can't do the job—there is too much work and there are too few of them to do it.

Senator **Danforth**. Thank you. Senator Long?

Senator **Long**. Let me just throw this question out for any of you who might want to respond to it. At least one of the statements here, and I suppose several of you, recommend that we provide more money for this Customs activity. Now, in effect, one of the witnesses said that he would recommend that it be appropriately increased. Now, let me tell you as a member serving on the committee, if you want us to increase the amount of money—and I am one who would be interested in helping you if the case can be made—I think that you need to tell us what amount. How much do you think ought to be recommended? How much should it be increased? I think you should be more specific because I think you can see from the questions I have asked of previous witnesses about the drugs, I think we ought to do more about the drug activity—about the inspection part. I would like to help you, but I don't have the specifics. What figure would you recommend that it be increased?

Mr. **Teofilo**. Senator, if I may, as an attachment to my testimony—Attachment F—I outlined a breakdown of the types of personnel and the staff for Customs Service. As I indicated in my testimony, in the Los Angeles Customs District we seek to get 150 staff, and we break it down by inspectors, quota operations clerks, etc.

Senator Long. That is nice for Los Angeles, but how about the rest of them? Do you have a recommendation as to how much you think should be provided across the entire United States?

Mr. Teofilo. No, sir.

Senator Long. I think you ought to give us that. Who is that who is speaking for a whole bunch here? There is somebody talking for the American Association of Exporters and Importers. Mr. Parsons? Mr. Parsons, can you give us a figure that you would recommend?

Mr. Parsons. I think in only one case did I say that an appropriate amount should be restored, and that was actually in the case of the budget for the U.S. Trade Representative's office, who still have to finalize the international arrangements on the Harmonized Code, and it appears that for some reason money for that purpose was left out of their budget, and I think that that has been passively admitted by the representatives of the Trade Representative's office. I am sure they know how much money was left out in error. I don't know what the figure is, but the point I think we made was that it must be a small amount anyway, but nevertheless very important and with the small budget which the Trade Representative's office has, it should not be difficult to determine what that amount is and give it back to them.

Senator Long. I want to help you, but I want you to make it easy for me.

Mr. Kumm. Senator, I think, aside from the USTR proposal, which I think is a very important one, I believe that the additional money needed for the drug enforcement and policing, which I totally support, we feel that through probably a private or a third-party management study of what the Customs Service is doing with their personnel might be helpful in reallocating some of their resources so they can answer the needs of the Port of Los Angeles and the other ports where there is indeed an influx of entries. However, another area that is very important, and it seems that it is stuck in neutral right now, is the need to adopt the periodic entry system which eliminates a great deal of duplication of effort. These are things that can be done immediately within the budget, within those required expenditures and appropriations that would have an immediate payoff. I think the drug enforcement part of it is a very serious matter, and possibly almost has to be handled separately.

Senator Long. Thank you.

Senator Danforth. Gentlemen, thank you all very much, and Ms. Beseda, thank you.

The next panel is William Methenitis, on behalf of the North Texas Commission, and James Mooring, Houston Customshouse and Freight Forwarders Association. Mr. Methenitis, would you begin, please?

## STATEMENT OF WILLIAM M. METHENITIS, ESQ., STRASBURGER & PRICE, DALLAS, TX, ON BEHALF OF THE NORTH TEXAS COMMISSION

Mr. Methenitis. Mr. Chairman, it is our pleasure to be here before the subcommittee this morning on behalf of just about everybody in North Texas who is involved in international trade. The press release announcing this hearing said that the subcommittee is particularly interested in hearing about inspection services and the Customs automation program, and we will give a few brief comments on each. First about inspection services. We have a severe personnel problem in the Dallas/Fort Worth area. Currently we have 33 inspectors and four aides in the inspection and control division and 11 import specialists and six entry personnel in the classification and value division, and we also have assorted supervisory personnel. This year it is anticipated that those people will be responsible for over 68,000 formal entries and over 800,000 passengers. That is an increase of 60 percent in cargo and 97 percent in passenger clearance in the last 4 years. During that same 4-year period, we have had a net staff increase on that level of two people and a net decrease on the administrative level. These people simply cannot handle the load we have. Every day between 2 and 3 o'clock the Customs cargo office closes down for the rest of the day so that all the inspectors can be released to handle passengers.

Senator **Danforth**. Would you say that again, please?

Mr. **Methenitis**. Some time between 2 and 3 o'clock every day, the customs cargo clearance operation at DFW Airport shuts down entirely—it is customs cargo clearance not only for air cargo but also for ocean cargo that clears in Dallas/Fort Worth—because every single inspector on the staff is needed to handle passengers at the airport. Most of the importers and exporters in our area believe that we ought to have two shifts of cargo clearance handling at the airport, where currently we have about two-thirds of a shift. At the present rate of growth, cargo clearance is anticipated to be a half-day operation at the world's fourth busiest airport in the very near future. As an example, during the first 4 months of this year alone, DFW Airport will receive all new cargo service from Taipei as well as expanded passenger and cargo service from Paris, London, Frankfurt, Madrid, Calgary, Edmonton, Toronto, Montreal, Japan, Hong Kong, Bangkok, and Malaysia. That is just in the first 4 months of this year. We simply do not have the personnel to handle the amount of cargo and the amount of passengers that clear at the airport. In my prepared statement, I mention several joint community and Customs projects that are currently going on in Dallas/Fort Worth to make Customs personnel as efficient as possible. In fact, we think we have one of the most personnel efficient Customs offices in the country. There just aren't enough people to go around, and even with automation and all the changes that Customs is proposing, we cannot operate efficiently with the amount of personnel that we have.

Senator **Bentsen**. How could you say what you just said here: "In summary, North Texas fully supports Customs' program to streamline and modernize"? They are talking about cutting out a lot of people.

Mr. **Methenitis**. In the general automation program that they are talking about, we——

Senator **Bentsen**. Is that going to take care of it?

Mr. **Methenitis**. No. We don't think that that will take care of it. We do support their goals. We think automation is going to help, and we are fully behind Customs in cutting down the amount of paperwork through the automated processing. We are very much in support of that general concept. We are very interested in assisting them to become as efficient as possible, but even with that automated system, we don't believe that there are going to be enough people to adequately handle the cargo and personnel clearing in Dallas/Fort Worth.

Senator **Bentsen**. All right. Mr. Mooring?

[Mr. Methenitis' prepared statement follows:]

### STATEMENT OF WILLIAM M. METHENITIS, ATTORNEY, STRASBURGER & PRICE, DALLAS, TX, ON BEHALF OF THE NORTH TEXAS COMMISSION

I appreciate the opportunity to appear before the Subcommittee and comment on the experience of Dallas/Fort Worth with Customs' commercial and passenger entry services, and express our excitement about the potential of Customs' Automated Commercial System ("ACS"). Our community is strongly supportive of Customs' goal of increased efficiency through modernization and automation. At the same time, we believe it is imperative that Customs' planning and budgeting for the proposed radical changes in commercial processing provide for (1) the input of users of Customs services in designing the specifics of automated operations, and (2) personnel sufficient to process passengers and cargo as expeditiously as the system would allow.

*Community Involvement.*—International Trade has recently become one of the primary components of the North Texas economy. Although our experiences with the Customs Service are of relatively recent origin, the North Texas community has clearly recognized the importance of the Customs Service to our future economic growth. Local business and government have made a commitment to enhance Customs' ability to operate more efficiently so that cargo and passengers may be processed as rapidly as possible. The extent of our commitment is demonstrated by the groups on whose behalf I am appearing today: the Cities and Chambers of Commerce of Dallas and Fort Worth, the DFW International Airport Board, the North Texas Commission, which is comprised of 20 North Texas cities and 22 chambers of commerce as well as area businesses, the Dallas Market Center, one of the nation's largest trade centers and the nation's only continuous trade fair, and a host of trade groups involved in international commerce—virtually all of North Texas is represented.

Dallas/Forth Worth has already been active in working with Customs to reach our mutual goal of an efficient entry system. Currently, five joint projects are underway:

1. *Customs Service Center.*—The DEW Customs Service Center, scheduled to be operational in 1986, consolidates all Customs functions at a single location. The Service Center will provide for a more efficient use of Customs personnel, particularly by centralizing inspections. The Service Center will also provide a greater degree of automation than currently exists, including a broker interface which will be compatible with ACS.

2. *Automated Cargo Clearance System.*—The Dallas/Fort Worth Airport Board and a group of potential users is currently evaluating a port of Dallas/Fort Worth automated commercial clearance system, modeled after the system currently operational in London. The ultimate goal is to have a user financed system which includes ACS, and is able to reduce time and expense for importers, exporters, and Customs.

3. *Paired.*—Dallas/Fort Worth is currently involved in an experimental Customs computer release system for goods brought into the Port of Houston called Port of Arrival Immediate Release and Enforcement Determination ("PAIRED"). Under PAIRED, computer entries are made in Dallas/Fort Worth for immediate release of cargo in Houston, eliminating the need for in-bond shipment of those goods.

4. *Red Door-Green Door.*—Customs and the Dallas/Fort Worth International Airport have established a Red Door-Green Door passenger clearance for international passengers, speeding the clearance of the passengers and reducing the number of Customs inspectors necessary per flight.

5. *FAST.*—A locally designed follow-up to Customs' ACCEPT program, the Facilitated All-Cargo Tracking ("FAST") system has made more Customs personnel available for on-line inspections.

Our community has invested a great amount of time and capital to increase the efficiency of cargo and passenger clearance. We believe our focus has been compatible with the Customs initiative for increased efficiency through automation, and we are excited about the potential for better service through a cooperative effort involving ACS.

*Refinement of ACS.*—Customs has stated that fiscal 1986 will be its year for refinement of ACS. As Customs changes its focus from the general theory to operational specifics, we believe the involvement of the users of ACS is essential.

To date, we are pleased with the form ACS has taken. The basic design seems particularly responsive to nonstop air shipments, and generally responsive to ocean cargo destined for Dallas/Fort Worth. The general release (and ultimately pre-clearance) objective of ACS should allow 85–90% of goods destined for Dallas/Fort Worth to move directly to importers without delay.

As the general design moves to specific refinements, our support becomes more cautious. Our community is concerned about whether the system will operationally address needs peculiar to the Dallas/Fort Worth inland port. Importers in our area, for example, are concerned with the inspection procedure for goods which do not arrive by nonstop air shipment and are among those 10–15% of goods which are not "generally" released without inspection through ACS. At this point, it is apparently undetermined whether or not there will be a procedure for entering and inspecting those goods in Dallas/Fort Worth. Without such a procedure, Dallas/Fort Worth importers will be placed in the extremely undesirable position of being required to have personnel available to send to Los Angeles or New York because goods have been detained there for inspection, and being required to deal with entry and valuation problems at a district office thousands of miles away. This concern is amplified for air cargo users whose goods do not arrive by nonstop flights. Currently, goods on direct flights move promptly to DFW under a permit to proceed or an in-bond entry, never leaving the plane. Importers with time-critical air shipments are concerned that under ACS some shipments may have to leave the plane for inspection, and that last minute arrangements will have to be made to bring the goods to DFW by another flight, completely unnecessary increase of time and expense.

The transition to ACS similarly concerns the Dallas/Fort Worth trade community. We have already experienced some bugs in the PAIRED system. Fortunately, PAIRED is a voluntary system, and when a procedural problem is found the goods involved may be moved under the traditional in-bond system rather than delayed until the problem is resolved. We believe a flexible ACS transition period which encourages use of the new system while not penalizing importers who "discover" bugs is essential.

In response to our particular concerns relative to inland ports, we believe that some type of permit to proceed program and limited in-bond movement of goods procedure may be in order. We are not, however, wed to any particular program, and simply desire the opportunity to present our concerns to a Customs Service that is committed to designing user responsive refinements to ACS. Customs plans and budgeting should clearly state a concerted effort to work with users to consider the potential effects of ACS in the field, to explain tentative plans to users, and receive comments on those tentative plans.

*Personnel.*—Our second concern with Customs' future plans is personnel. There is a personnel shortage in Dallas/Fort Worth now, and we do not envision the system improving, even with the addition of ACS. Currently at DFW, there are 33 inspectors and 4 sides in the Inspection and Control Division, and 11 import specialists and 6 entry personnel in the Classification and Value Division of Customs. This year, it is anticipated that those personnel will be responsible for processing over 68,000 formal entries, and over 800,000 passengers. As a comparison, in 1981, 31 inspectors with 2 aides and 12 import specialists with 7 entry personnel were responsible for 42,601 formal entries and 406,247 passengers—an increase of 60% in cargo clearance and 97% in passenger clearance handled by roughly the same number of personnel.

The current passenger load is already hindering the clearance of cargo at DFW. The Customs cargo processing system must be closed between 2:00 p.m. and 3:00 p.m. every day so that inspectors can process passengers.

International air service at DFW International Airport is expanding rapidly. During the first four months of this year, DFW will receive new all-cargo service from Taipei, as well as new and expanded passenger and cargo service from Paris, London, Frankfurt, Madrid, Calgary, Edmonton, Toronto, Montreal, Japan, Hongkong, Bangkok, and Kuala Lumpur. It is likely that DFW will soon be designated as the only nonstop gateway in the Sunbelt for service from Japan, and will receive new direct service from major South America points. Without additional personnel, it is likely that cargo clearance at the world's fourth busiest airport will be reduced to a half day operation in the near future. This less-than-full-service cargo processing continues even with Red Door-Green Door, PAIRED, ACCEPT, and FAST, and will continue with a Customs Service Center, and with ACS. There simply must be personnel to run the system.

*Conclusion.*—In summary, North Texas fully supports Customs' program to streamline and modernize. In planning for modernization, Customs must be cognizant of the ultimate goal, the expeditious processing of cargo and passengers. To achieve this goal, Customs must commit its resources to obtain user input to insure a user responsive ACS, and to provide sufficient personnel to maximize the operational benefits of the system.

## STATEMENT OF JAMES MOORING, PRESIDENT, HOUSTON CUSTOMHOUSE BROKERS AND FREIGHT FORWARDERS ASSOCIATION, HOUSTON, TX

Mr. MOORING. Thank you, Senator. I am James Mooring, President of the Houston Customhouse Brokers and Freight Forwarders Association. Each of the people here, whom I would like to introduce, have prepared a statement and respectively request that they be included in the record. After listening to the gentleman from Dallas and several of the Senators, there is no need to read most of my speech because it would be a repeat of what you have already covered. Next to me is Mr. Frank Ward, director of facilities and services for the Houston Chamber of Commerce and the Houston Economical Development Council.

The next gentleman is Mr. Alex Arroyos, president of Dynamic Ocean Services International, who is a leading broker in handling the direct discharge of steel, and I think it would be a good time to mention that we disagree with Mr. De Angelus' statement that the import specialist is not needed prior to entry. The next gentleman is Mr. Richard Leach. He is executive director of the Port of Houston Authority. Then, Mr. Ted Thorjussen, who is the president of the West Gulf Maritime Association. He represents shipowners, agents, and stevedores in the West Gulf area, which is from Lake Charles, LA, through Texas.

All of us will be available for any questions. All of us express our appreciation for the time you have given us here. One point that I would like to cover in highlighting some of our statements is we hear about appraisement centers and that they are not important to the immediate flow of goods. This is absolutely incorrect. The appraisement center possibly is even a misnomer.

The principal problem is not in appraisement of goods, which is determining a value which can occur any time after the importation, but is one of the admissibility of the goods. This grows more and more complicated each day. It is not a single function. It is not a routine process. It is a judgment. It is decision, and it is administration and management. The process of admissibility includes the application of the regulations, policy and precedents on each instance of importation, but the flow of products and volume goods through the Port of Houston, the administration of this situation by long distance becomes virtually impossible.

I sometimes think that the people that make up these plans fail to look at the geography. They are suggesting that the headquarters for the district be moved to Dallas. Dallas is further from Houston and certainly even further from Galveston, which is part of the District of Houston, than New York is from Washington. The geographic constraints are tremendous. Another point that we hear is that Houston is not a growing port. Yes, Houston is a growing port. Houston has suffered highly due to the international problems. It is recovering from this. It is the eighth largest airport in the United States, followed by Dallas and Atlanta.

The additional service coming in, just like at Dallas this year. We have a good, solid business infrastructure that would be greatly destroyed by moving the district from Houston. What we need is more help, not less help. At this time, I would like to—because of the constraints of time and the fact that many of the points have been well covered by the Senators and other speakers—ask Mr. Leach to summarize for us our statement, if that is permissible.

Mr. **Ward**. Before Mr. Leach speaks, Mr. Chairman, let me correct one thing for the record. When Mr. Mooring mentioned that Houston was the eighth largest airport in the United States, he was referring to international arrival and departing passengers, followed by No. 9 Atlanta and No. 10 Dallas. That is a very important point. Thank you.

Senator **Danforth**. Mr. Leach, we have some time problems. Did you have in mind a full-length statement?

Mr. **Leach**. No, sir. I just wanted to reiterate a few points.

Senator **Danforth**. All right.

## STATEMENT OF RICHARD LEACH, EXECUTIVE DIRECTOR OF THE PORT OF HOUSTON AUTHORITY, HOUSTON, TX

Mr. **Leach**. I wanted to mention that Houston is an international business center. The Port of Houston is the third largest port in total tonnage in the United States and the largest port for international water-borne trade volume. Houston is the Nation's fourth largest city and a major center of international activity. There are over 600 foreign corporations doing business in Houston, 63 international banks, and 54 consular offices, which make Houston a focal point for international business in the Southwest United States. It is essential that an international business center of this magnitude have easy access to customs officials to expedite the movement of import merchandise into the commerce of the United States.

Senator **Danforth**. Thank you, Mr. Leach. If you have more in your statement, we would be happy to include that in the record.

Mr. **Leach**. Thank you. I have submitted it for the record.

Senator **Danforth**. All right. Thank you.

[The prepared statements of Messrs. Mooring, Ward, Arroyos, Leach, and Thorjussen follow:]

**Houston Customhouse Brokers and Freight Forwarders Association**
P.O. Box 53359 • Houston, Texas 77052

TESTIMONY BEFORE THE SENATE
FINANCE SUBCOMMITTEE ON INTERNATIONAL
TRADE

Hearing held on April 3, 1985
at Washington, D.C.
for Authorization Fiscal Year
1986 Funds for U. S. Customs
Service

BY: J. F. MOORING, PRESIDENT
HOUSTON CUSTOMHOUSE BROKERS
AND FREIGHT FORWARDERS ASSOCIATION

Affiliate Member
National Customs Brokers & Forwarders Assoc. of America, Inc.

Executive Office Phone: 713-228-7447
Writers Phone:

CERTAIN PROPOSALS HAVE BEEN MADE FOR THE REORGANIZATION OF THE U. S. CUSTOMS SERVICE FIELD ORGANIZATION IN ORDER TO INCREASE EFFICIENCY AND REDUCE COSTS OF OPERATION. THESE CHANGES INCLUDE CONSOLIDATION OF SEVERAL DISTRICTS, AND IN SOME CASES, RELOCATION OF DISTRICT HEADQUARTERS LOCATED AT A PLACE OTHER THAN HOUSTON.

WE STRONGLY OBJECT TO THE LOCATION OF THE DISTRICT HEADQUARTERS OUTSIDE HOUSTON. THE MOST PRACTICAL AND LOGICAL LOCATION OF THE HEADQUARTERS OFFICE IS HOUSTON. DUE REFLECTION AND LOGICAL CONSIDERATIONS OF THE FACTS AND FLOW OF GOODS WILL LEAD TO THIS CONCLUSION FOR REASONS OUTLINED BELOW. ALSO, WE FEEL OTHER PORTS MAY HAVE REASONS THAT JUSTIFY A DISTRICT IN THEIR PORT.

IN ADDITION, THE UNIQUE SITUATION OF THE PORT OF HOUSTON REQUIRES THAT THE EXPERTISE, ADMINISTRATIVE FUNCTIONS, AND MANAGERIAL SKILLS PROVIDED BY THE OFFICE OF THE DISTRICT DIRECTOR BE IMMEDIATELY AVAILABLE IN HOUSTON. SUCH SERVICES PROVIDED AT LONG-DISTANCE WOULD BE DISASTROUS TO THE OPERATION OF THE PORT OF HOUSTON.

THE VOLUME OF GOODS FLOWING THROUGH THE PORT OF HOUSTON WITH THE CORRESPONDING NUMBER OF ENTRIES, DUTY COLLECTIONS, AND THE INHERENT PROBLEMS ASSOCIATED WITH THIS MAGNITUDE OF BUSINESS NOT ONLY DICTATE THE NECESSITY AND PRACTICALITY OF A DISTRICT AT HOUSTON BUT THE DUTY COLLECTIONS MAKE IT MORE THAN SELF SUPPORTING.

FY84 COLLECTIONS $407.060.075
FY84 ENTRIES (MANUAL COUNT) 102,613

IN THE ADDITION TO THE ABOVE, THERE ARE SEVERAL UNIQUE CHARACTERISTICS OF THE IMPORT/EXPORT FLOW THROUGH THE PORT OF HOUSTON THAT REQUIRES THE IMMEDIATE ATTENTION OF IMPORT SPECIALISTS, APPRAISALS, ADMINISTRATIVE SKILLS AND DECISION-MAKING AUTHORITY THAT WOULD NOT BE AVAILABLE IF HEADQUARTERS WERE LOCATED IN ANOTHER AREA.

1. APPROXIMATELY 20% OF ALL STEEL IMPORTED INTO THE U.S. FLOWS THROUGH THE PORT OF HOUSTON. FOR EXAMPLE, AT THE TIME OF THE LIFTING OF THE EEC STEEL EMBARGO, OVER 225,000 NET TONS OF EEC STEEL HAD BEEN UNLOADED DURING THE EMBARGO PERIOD AND WAS STORED IN FREE TRADE ZONE AREAS OR IN BONDED WAREHOUSES. THIS PRODUCT IS A HIGH-VOLUME IMPORT HERE AND THE ADMINISTRATION OF THE CONTROLS IMPOSED BY THE CONGRESS AND THE EXECUTIVE BRANCH MAKE IT EXTREMELY COMPLICATED. WITHOUT THE EXPERTISE AND ADMINISTRATION PROVIDED BY A LOCAL DISTRICT HEADQUARTERS, THE SMOOTH FLOW OF THIS PRODUCT WOULD BE COMPLETELY DISRUPTED. AT THE PRESENT TIME, NEGOTIATIONS HAVE BEEN COMPLETED WITH THE 11 EEC NATIONS PLUS SIX OTHER NON-EEC NATIONS. IN ADDITION, NEGOTIATIONS ARE IN PROGRESS WITH AT LEAST FIVE OTHERS AND TALKS LEADING TO POSSIBLE NEGOTIATIONS WITH AT LEAST TWO MORE ARE IN PROGRESS. WITH THE REQUIREMENTS, LICENSES AND OTHER COMPLICATED DOCUMENTATION THAT MUST BE PROVIDED TO THE DISTRICT DIRECTOR, EVEN BEFORE ENTRY CAN BE FILED, REQUIRES A PRESENCE AND AUTHORITY THAT COULD NOT BE PROVIDED FROM ANOTHER LOCALITY.

2. THIS LEADS TO AN EVEN MORE UNIQUE SITUATION IN HOUSTON NOT PRESENT IN ANY OTHER PORT IN THE ENTIRE COUNTRY, AND THAT IS THE FACT THAT THE HIGH VOLUME OF STEEL FLOWING THROUGH HOUSTON IS ALMOST COMPLETELY ACCOMPLISHED BY DIRECT-DISCHARGE. THIS MEANS THAT HOUSTON HAS MORE DIRECT-DISCHARGE OPERATIONS THAN ALL OTHER PORTS COMBINED IN THE WHOLE COUNTRY. IN ORDER TO MAKE A DIRECT-DISCHARGE, THE COMPLICATED PROCESS OF ENTRY AND RELEASE MUST BE ACCOMPLISHED BY THE TIME THE SHIP DISCHARGES ITS CARGO. THIS ENTIRE PROCEDURE WOULD BE COMPLETELY DISRUPTED WITHOUT THE IMMEDIATE AND LOCAL AVAILABILITY OF THE IMPORT SPECIALISTS. THE COSTS TO THE IMPORTERS AND TO THE PORT OPERATION WOULD INCREASE PHENOMINALLY AND THE COMMERCIAL INFRASTRUCTURE OF THE INDUSTRY WOULD BE DESTROYED. THE NECESSITY TO DISCHARGE THIS VOLUME OF STEEL ONTO THE DOCKS AND RELOAD ONTO TRUCKS OR RAILCARS FOR REMOVAL WOULD CAUSE A CONGESTION AT THE PORT NEVER EXPERIENCED BEFORE AND WOULD DISRUPT OTHER MOVEMENTS, BOTH EXPORT AND IMPORT. AND, AT THIS TIME, THE U.S. CAN ILL AFFORD ANY ACTIVITY WHICH WOULD ADVERSELY AFFECT ITS FLOW OF EXPORTS AND FURTHER THREATEN OUR BALANCE OF PAYMENTS. IN ORDER TO ACCOMPLISH THIS PRESENT EFFICIENT AND COST-REDUCING PROCEDURE, THE EXPERTISE OF THE IMPORT SPECIALISTS AND OTHER SERVICES OF THE DISTRICT DIRECTOR'S STAFF IS UTILIZED. IF THIS STAFF AND ITS DIRECTION WERE REMOVED, THE DISRUPTIVE EFFECT WOULD ADVERSELY EFFECT THE INDUSTRY AS WELL AS OTHER INDUSTRIES DEPENDANT ON THESE IMPORTATIONS. COSTS WOULD BE GREATLY INCREASED, AFFECTING EMPLOYMENT, HOUSTON'S COMPETATIVE POSITION, BE INFLATIONARY, AND ADVERSELY INFLUENCE OUR PRESENT ECONOMIC RECOVERY BY

INCREASING PRICES.

3. ANOTHER FEATURE THAT MAKES THE PORT OF HOUSTON UNIQUE IS THE LARGE CONCENTRATION OF THE PETRO-CHEMICAL INDUSTRY IN THIS AREA. BETWEEN 25-30% OF ALL CHEMICAL IMPORTS INTO THE U.S. FLOWS THROUGH THIS PORT, AND AT LEAST 1/3 OF ALL PETROLEUM AND PETROLEUM PRODUCTS IMPORTED ARRIVES IN THE HOUSTON DISTRICT AREA. AS CUSTOMS IS CHARGED WITH THE FRONT-LINE, HANDS-ON ADMINISTRATION OF THE REGULATIONS OF OTHER AGENCIES, THE ABSENCE OF THE ADMINISTRATIVE SUPPORT OF A DISTRICT HEADQUARTERS WOULD BURDEN THIS INDUSTRY WITH DELAYS, COMPLICATIONS, AND COST INCREASES.

4. HOUSTON HAS ONLY RECENTLY INITIATED A COMPLETELY NEW CONCEPT IN THE OPERATION OF A FREE TRADE ZONE. UNDER THIS CONCEPT, RATHER THAN DESIGNATE ONE LARGE CONTIGUOUS AREA AS A FTZ AND HAVE INDUSTRY LOCATE WITHIN THAT ZONE, SEVERAL DIFFERENT AREAS HAVE BEEN DESIGNATED AS A PART OF THE OVERALL FTZ. IN OTHER WORDS, THE FTZ WAS TAKEN TO THE INDUSTRY RATHER THAN INDUSTRY BEING BROUGHT TO THE FTZ. THE EFFICIENCY AND COST REDUCTION FEATURES OF SUCH A PLAN IS EASILY DISCERNABLE. IF PROVEN SUCCESSFUL, THIS CONCEPT COULD REVOLUTIONIZE FTZ OPERATIONS NOT ONLY IN THE U.S., BUT WORLD-WIDE. HOWEVER, THIS CONCEPT IS STILL IN THE EXPERIMENTAL STAGE AND IS BEING DEVELOPPED AND CHANGED AS NEEDS BECOME APPARENT. TO REMOVE THE ADMINISTRATIVE OVERSIGHT AND DECISION-MAKING FUNCTION OF THE DISTRICT WOULD JEOPARDIZE THIS EXPERIMENT TOWARD GREATER EFFICIENCY AND COST-REDUCTION.

5. ANOTHER FACTOR CONTRIBUTING TO THE UNIQUE NATURE OF THE PORT OF HOUSTON IS THE FACT THAT THE INFLUX OF ORIENTAL IMMIGRANTS INTO THE HOUSTON AREA HAS CONTRIBUTED TO THE FLOW OF PRODUCTS BY OCEAN TRAFFIC CULTURAL BACKGROUND DEMANDS FOODS, CLOTHING, AND OTHER PRODUCTS NOT READILY AVAILABLE IN THIS COUNTRY. THIS HAS RESULTED IN SHIPS DISCHARGING LARGER AND LARGER VOLUMES OF FOOD PRODUCTS, TEXTILES, AND SIMILAR GOODS. THIS PLACES HEAVY DEMANDS ON CUSTOMS IN THE ADMINISTRATION OF THE REGULATIONS OF OTHER U.S. GOVERNMENT AGENCIES OF LAWS IMPOSED BY OUR CONGRESS. WITHOUT THE ADVANTAGES AFFORDED BY THE ADMINISTRATIVE SKILLS PROVIDED BY THE DISTRICT HEADQUARTERS, THE PRESENT EFFICIENT FLOW OF THESE PRODUCTS WOULD BE HINDERED.

6. HOUSTON IS A GROWING PORT. IT IS THE LARGEST GULF PORT IMPORTER OF AUTOMOBILES AND AUTOMOBILE PARTS. VOLKSWAGEN HAS ESTABLISHED A FTZ AREA HERE FOR AUTOMOBILE ASSEMBLY, AND TOYOTA HAS EXPRESSED INTEREST IN A SIMILAR ARRANGEMENT. THE VALUE OF OCEAN BORNE ANTIQUES HAS LEAD THE FISH AND WILDLIFE SERVICE TO DESIGNATE HOUSTON AS AN AUTHORIZED PORT FOR THE IMPORTATION OF THESE PRODUCTS. AT THE BEGINNING OF THE DECLINE OF THE PETRO-CHEMICAL ECONOMY, THE PORT SUFFERED A DECLINE IN ACTIVITY, BUT ITS DIVERSITY HAS CONTRIBUTED TO ITS QUICK RECOVERY. IT MAINTAINS AN ATTRACTIVE ENVIRONMENT FOR INDUSTRY, IS AGGRESSIVELY SEEKING MORE TRAFFIC THROUGH ITS ADVERTISING AND TRADE MISSIONS TO OVERSEAS SHIPPING POINTS, IT IS EFFICIENT AND THERE IS FULL SUPPORT FROM THE CIVIC AND BUSINESS COMMUNITY. AS EVIDENCE TO SUPPORT THIS CONTENTION, IT IS NOTED THAT PRESENTLY THERE ARE 97 LICENSED CUSTOMSHOUSE BROKERS IN THE PORT OF HOUSTON. THIS GROWTH AND DIVERSITY REQUIRES AN INCREASED ATTENTION TO ITS REQUIREMENTS BY U.S. CUSTOMS, NOT A REDUCTION. NOT ONLY IS THE IMMEDIATE PRESENCE OF THE IMPORT SPECIALISTS REQUIRED, BUT ALSO THE OTHER FUNCTIONS OF DISTRICT ADMINISTRATION SUCH AS BONDED WAREHOUSING, IN-BOND MOVEMENTS, ENFORCEMENT AND ENTRY CONTROL. IN ADDITION, THE INTERNATIONAL TRADE FAIR SUPERVISION IS AN EVER-GROWING NEED. THIS LATTER WILL GROW SIGNIFICANTLY WITH THE OPENING OF THE NEW CONVENTION CENTER IN THE NEAR FUTURE. AT THE PRESENT TIME, THE PORT OF HOUSTON RANKS THIRD IN THE NATION. IT IS LUDICROUS TO CONSIDER THAT THE NATION'S THIRD LARGEST PORT, AND EXPECTED TO GROW TO RANK SECOND IN THE NEAR FUTURE, WOULD NOT ENJOY THE ADVANTAGE OF A CUSTOMS DISTRICT HEADQUARTERS.

THE DIVERSITY OF PRODUCTS FLOWING THROUGH THE PORT PLACES A HEAVY DEMAND ON THE CUSTOMS SERVICE. THE FLOW OF STEEL, PETRO-CHEMICALS, AUTOMOBILES, FOODS, TEXTILES AND OTHER PRODUCTS REQUIRES CUSTOMS TO BE EVER ALERT TO, NOT ONLY THEIR REGULATIONS, BUT THE ENFORCEMENT OF THOSE REGULATIONS OF SUCH AGENCIES AS FOOD AND DRUG; FISH AND WILDLIFE; AGRICULTURE; E.P.A.; D.O.T.; TOBACCO, ALCOHOL AND FIREARMS; AND OTHERS. AND, AS CONGRESS CONTINUES TO IMPOSE MORE AND MORE CONTROLS AND RESTRICTIONS, THE PROBLEM INCREASES RATHER THAN DECREASES.

ADDITIONALLY, WHEN THE VOLUME OF GOODS MOVING THROUGH THE PORT OF HOUSTON BY OCEAN VESSELS, COMMERCIAL AIRLINES, AIR CHARTER SERVICES AND MOTOR FREIGHT AS COMPARED TO OTHER LOCATIONS, THE CONCLUSION MUST BE REACHED THAT HOUSTON IS THE LOGICAL, MOST NEEDED, AND MOST ECONOMICAL LOCATION OF A CUSTOMS DISTRICT.

THE NEEDS OF THE IMPORTING PUBLIC, AS WELL AS THE CONSUMING PUBLIC, OUR ECONOMY AND OVERALL GOOD CAN BE BEST SERVED IN THIS WAY. OTHERWISE, THERE WILL BE DELAYS IN THE MOVEMENT OF GOODS, INCREASED COSTS, LOSS OF EFFICIENCY AND EFFECTIVENESS AND ULTIMATELY, LOSS OF BUSINESS.

IT WILL MEAN A MIGRATION OF INDUSTRY TO OTHER PORTS WHERE THEY CAN BE BETTER SERVED. THERE WILL BE A LOSS OF CONVENTION BUSINESS DUE TO INEFFICIENT CUSTOMS SERVICE. THERE WILL BE A DECREASE OF INBOUND CARGO, RESULTING IN FEWER SHIPS CALLING AT THE PORT AND A RESULTANT EFFECT ON OUTBOUND CARGO. IN THE PRESENT STATE OF OUR BALANCE-OF-PAYMENTS, THIS COULD HAVE ECONOMICALLY DISASTEROUS EFFECTS TO THE ENTIRE NATION.

EMPLOYMENT, SPENDABLE INCOME, FURTHER DISRUPTION OF THE LABOR MARKET AND NECESSITY TO RELOCATE THE LABOR FORCE CAN RESULT FROM A DECLINE IN PORT ACTIVITIES.

NOT ONLY DOES HOUSTON REQUIRE THE LOCATION OF THE FUNCTIONS OF THE IMPORT SPECIALISTS AND OF APPRAISEMENT, BUT THE ENTIRE FUNCTIONS OF A DISTRICT. THIS WOULD INCLUDE NOT ONLY THOSE FUNCTIONS ALREADY CITED, BUT THE AREAS OF VISA CONTROLS, LICENSES AND CERTIFICATES, COUNTRY-OF-ORIGIN MARKINGS AND LABELING, COUNTERVAILING DUTIES, ETC. IN OTHER WORDS, HOUSTON REQUIRES THE ENTIRE FUNCTION OF A DISTRICT, NOT JUST ENTRY AND APPRAISEMENT.

THE PRINCIPAL PROBLEM IS NOT IN THESE AREAS, BUT IN THAT OF ADMISSIBILITY, WHICH GROWS MORE AND MORE COMPLICATED EACH DAY. ADMISSIBILITY IS NOT JUST A SINGLE FUNCTION OR ROUTINE PROCESS. IT IS JUDGEMENT, DECISION AND ADMINISTRATION. THIS IS NOT ACCOMPLISHED BY A FEW IMPORT SPECIALISTS OR BY INSPECTION. THE PROCESS OF ADMISSIBLITY INCLUDES APPLICATION OF REGULATION, POLICY AND PRECEDENCE TO EACH INSTANCE OF IMPORTATION. THE GREATER THE VOLUME, THE WIDER THE DIVERSIFICATION AND CLASSIFICATION OF PRODUCTS, THE GREATER THE PROBLEMS BECOME. WITH THE FLOW OF PRODUCTS AND VOLUME OF GOODS THROUGH THE PORT OF HOUSTON, THE ADMINISTRATION OF THIS SITUATION BY LONG DISTANCE BECOMES A VIRTUAL IMPOSSIBILITY.

AUTHORIZATION FOR THE
U.S. CUSTOMS SERVICE

Testimony by Frank Ward, Director, the Houston Chamber of Commerce
before the Senate Finance Subcommittee on International Trade
Wednesday, April 3, 1985, 9:30 a.m.
215 Dirksen Senate Office Building, Washington, D.C.

Mr. Chairman, distinguished Members, ladies and gentlemen, as a Director at the Houston Chamber of Commerce, a broad-based organization comprised of more than 5,500 business and professional members in the Houston region, I thank you for the opportunity to include this testimony. We are joined by the Houston Economic Development Council whose primary purpose is to foster and expand economic development and opportunity for the Houston region. A key target of the Council's effort is the expansion of foreign trade. Houston is an international city . . . attracting foreign businessmen and investors, trade and commerce through its international air terminals and the Port of Houston. What happens to the U.S. Customs Service has impact on our City and on our City's ability to handle the immense cargo volume that flows through our area.

Houston Intercontinental Airport is the major international air cargo gateway in the southern tier of the United States--only exceeded in international air cargo volume by Miami on the southeast coast and Los Angeles on the west. Houston Intercontinental Airport is served internationally by British Caledonian Airways, Air France, KLM, Royal Dutch Airlines, TACA, SAHSA, Avianca, Aeromexico, Cargolux, Caribbean Air Cargo, VIASA and soon by Lufthansa. All of these carry air cargo in their aircraft lower decks and by combination (combi) air cargo and passenger aircraft. Additionally, Air France and Cargolux provide ALL-CARGO service from and to Europe and the Middle East using Houston as their collection and consolidation point. No other city across the southern tier of the United States has service near this level. Houston is, in fact, synonymous with the movement of international air cargo.

The Port of Houston is by far the major generator and receiver of cargo on the Gulf Coast. The Port of Houston combined with Galveston and Corpus Christi represent the major seaport access to Texas and indeed to the southwestern United States. Clearly, facilities of this magnitude are sufficient to mandate the full and prime concern of the U.S. Customs in the conduct of international business and world trade.

Houston, the second largest port City or point of entry in the United States, clearly cannot be relegated to an inferior position.

Action presently contemplated by U.S. Customs to consolidate the Port of Houston with another city would impose undue negative impact on foreign trade in Houston, the nation's fourth largest city, and hamper if not negate Houston's newly created economic development plans. Houston is a city on the move in international business and world trade. Fifty-five (55) foreign governments have consular offices in Houston. Houston has fifty-four (54) foreign bank representative offices, ranking Houston fourth in the top 10 cities with the most foreign banks represented. Twenty-five (25) Edge Act Corporations chartered have Houston operations. Any action to slow down this growth and forward momentum would act to the detriment of Houston, Texas and ultimately the U.S. balance of trade.

## TESTIMONY BEFORE THE SENATE FINANCE COMMITTEE ON INTERNATIONAL TRADE BY ALEXANDER G. ARROYOS, PRESIDENT DYNAMIC OCEAN SERVICES INTERNATIONAL, INC.

THE PORT OF HOUSTON WHICH RANKS SECOND IN THE NATION IN THE HANDLING OF FOREIGN CARGO IS ALSO THE NUMBER ONE PORT IN THE HANDLING OF OIL RELATED CARGO.

IN 1984 THE HOUSTON CUSTOMS DISTRICT COLLECTED $407,060,075. IN CUSTOMS DUTIES. OF 46 CUSTOMS DISTRICTS, ONLY EIGHT DISTRICTS COLLECTED MORE DUTIES THAN THE HOUSTON CUSTOMS DISTRICT.

IN 1984 THE HOUSTON CUSTOMS DISTRICT HANDLED 102,613 CONSUMPTION ENTRIES. ONLY 16 DISTRICTS HANDLED MORE CONSUMPTION ENTRIES THAN THE HOUSTON CUSTOMS DISTRICT. OF THESE 16 DISTRICTS, FOUR ARE BORDER CROSSINGS WHERE A CONSUMPTION ENTRY IS REQUIRED FOR EACH TRUCK OR RAILCAR. OF THE 102,613 CONSUMPTION ENTRIES HANDLED BY THE HOUSTON CUSTOMS DISTRICT, MOST COVERED LARGE TONNAGE AND WITH SEVERAL OCEAN BILLS OF LADING INVOLVED AND CONSISTED OF VARIOUS ITEMS WITH MULTIPLE CLASSIFICATIONS.

AT THE PORT OF HOUSTON THERE ARE OVER 100 CUSTOMS BROKERS. DURING A NORMAL DAY WE NEED TO CONSULT WITH VARIOUS PERSONS AT THE HOUSTON CUSTOMS DISTRICT. IT IS NOT UNCOMMON FOR A CUSTOMS COMMODITY SPECIALIST TO RECEIVE AS MANY AS TEN TELEPHONE CALLS OR PERSONAL VISITS BY CUSTOMS BROKERS OR IMPORTERS DURING THE PERIOD OF AN HOUR.

THE PORT OF HOUSTON RANKS AS THE TOP PORT IN THE NATION IN THE HANDLING OF IMPORTED STEEL WHICH IS DISCHARGED DIRECT FROM SHIP-TO-TRUCKS. IMPORTED STEEL FROM THE EUROPEAN ECONOMIC COMMUNITY (EEC COUNTRIES) REQUIRE AN EXPORT CERTIFICATE FROM THE EXPORTING COUNTRY. AFTER WE PREPARE THE CUSTOMS ENTRY DOCUMENTS, WE MUST PRESENT THEM TO THE COMMODITY SPECIALIST AT THE CUSTOMS DISTRICT OFFICE FOR REVIEW AND VERIFICATION OF THE EXPORT CERTIFICATE. AFTER THAT REVIEW, WE

PRESENT THE DOCUMENTS AT THE CUSTOMS BARGE OFFICE FOR INPUT INTO THE COMPUTER. AFTER RELEASE OF THE CARGO, THE DOCUMENTS ARE AGAIN PRESENTED TO THE CUSTOMS DISTRICT OFFICE FOR FINAL REVIEW BY THE COMMODITY SPECIALIST. PRESENTLY THE COMMODITY SPECIALIST IS HANDLING APPROXIMATELY 150 ENTRIES IN THIS MANNER. MOST RECENTLY OTHER COUNTRIES HAVE BEEN ADDED TO THE LIST OF COUNTRIES REQUIRING EXPORT CERTIFICATES FOR STEEL TUBULAR GOODS IMPORTED INTO THE UNITED STATES. IT IS ANTICIPATED THAT JAPAN AND KOREA WILL BE ADDED TO THAT LIST. IT IS ESTIMATED THAT EVENTUALLY BETWEEN 800 AND 900 CONSUMPTION ENTRIES OF STEEL TUBULAR GOODS WILL REQUIRE THIS TYPE OF HANDLING. THESE ENTRIES AVERAGE ABOUT 500 TONS PER ENTRY.

DURING 1984 THE PORT OF HOUSTON ALONE HANDLED 3,511,173 TONS OF IMPORTED STEEL AND 51,129 TONS OF EXPORTED STEEL. ALMOST 100% OF THIS STEEL WAS DISCHARGED FROM SHIP-TO-TRUCK, RAILCAR, OR BARGE. OR IN THE CASE OF EXPORT, FROM TRUCK-TO-SHIP. THIS TYPE OF HANDLING SAVES THE IMPORTER OR EXPORTER OVER $18.00 PER TON. MOST IMPORTANT, IT WOULD BE PARALIZED IF EVEN A SMALL PORTION OF THIS TONNAGE WERE DISCHARGED ONTO THE DOCKS. THERE IS NOT ENOUGH ROOM TO ACCOMMMODATE EVEN A SMALL PART OF THIS TONNAGE ON THE DOCKS.

THE QUICK AND EFFECIENT FLOW OF DOCUMENTS THROUGH THE CUSTOMS DISTRICT OFFICE IS A MUST IN THE HANDLING OF IMPORTED STEEL THROUGH THE PORT OF HOUSTON.

HOUSTON IS ALSO FAST BECOMING AN IMPORTANT PORT IN THE HANDLING OF FOODSTUFF AND TEXTILES. THESE ITEMS ALSO REQUIRE VERY DETAILED HANDLING WITH THE CUSTOMS DISTRICT OFFICE.

THE PORT OF HOUSTON NOT ONLY DESERVES TO KEEP IT'S CUSTOMS DISTRICT OFFICE, BUT IT MUST KEEP IT IN ORDER TO CONTINUE TO OPERATE EFFECIENTLY AND PROPERLY SERVE IT'S CUSTOMERS.

## STATEMENT BY RICHARD P. LEACH, EXECUTIVE DIRECTOR, PORT OF HOUSTON AUTHORITY

The Customs Services' current plan for restructuring its district offices is reported to include the consolidation of the Houston and Port Arthur districts into Dallas. The Port of Houston is strongly opposed to this move and feels it would put unnecessary and unreasonable burdens on the import community and the international business sector of the Texas Gulf Coast Region.

Houston is an international business center. The Port of Houston is the third largest port in total tonnage in the United States and the largest port in international waterborne trade volume. Houston is the nation's fourth largest city and a major center of international activity. There are over 600 foreign corporations doing business in Houston: 63 international banks and 54 consular offices make Houston a focal point for international business in the Southwest United States. It is essential that an international business center of this magnitude have easy access to Customs officials to expedite the movement of import merchandise into the commerce of the United States.

Houston is a central point for Customs activities in the Texas Gulf Coast. The Customs' port at Houston includes the Port of Houston, Houston Intercontinental Airport, and the ports of Freeport, Texas City, and Galveston. In the fiscal year 1984, Houston's entry volume was twice as large as the volume at Dallas, and its collections were four times as great. It would seem that any consolidation would logically move the Dallas and Port Arthur districts into Houston. Houston's central location would reduce travel for Customs personnel and make Customs personnel available locally to the majority of importers. This necessity for easy access is more important because of the broad range of commodities, including quota merchandise, that enters at the Houston Customs' port. This is further amplified by the fact that the Houston area is at the forefront of new technology and may require expeditious classification of hightech imports in the future.

The Port of Houston has historically worked very closely with Customs officials at both the local and national levels. Houston was the leader in the implementation of the Model Seaport Program and the ACCEPT

Program. The Port of Houston continues its leadership in development and implementation of the Automated Commercial System, which Customs has decided to implement. This leadership role in implementing new programs involving U.S. Customs has required, and will continue to require, close cooperation and close proximity with Customs officials in order to achieve the goals of U.S. Customs.

The Port of Houston Authority is the grantee of U.S. Foreign Trade Zone No. 84. This innovative foreign trade zone is the largest multi-site zone in the United States comprising over thirty separate sites located throughout Harris County. The zone is expected to double in size in 1985, and have three times as many sites by the end of 1987. The Federal Statutes state "the District Director of Customs in whose district the zone is located shall, in addition to his duties as District Director of Customs, be in local charge of the zone as the Resident Representative of the Foreign Trade Zone Board." The complexity and size of this multi-site zone makes it essential that communications with the District Director be as easy as possible to facilitate compliance with Customs procedures.

In addition to the Houston Foreign Trade Zone, there are over eighty bonded warehouses located in the Houston metropolitan area. Further, there are many bonded warehouses in Galveston, Freeport and Corpus Christi that are monitored by the District Customs Office. In contrast, the Dallas-Ft. Worth metroplex has a single Foreign Trade Zone Warehouse at DFW International Airport and eight bonded warehouses.

In conclusion, it seems inconceivable to me that the U.S. Customs Service would propose to consolidate one of their largest, most complex, and most active district offices into a substantially smaller location. The needs of international commerce and the U.S. Customs Service would seem to dictate that Houston remain the district office by virtue of its size and complexity as a port of entry. It is difficult to rationalize this proposal by U.S. Customs to consolidate a very large and active district office into a much smaller office. This is particularly true when Customs is reputed to be planning to maintain district offices in such places as Cleveland, Philadelphia and Savannah. The Port of Houston Authority would urge the Subcommittee on International Trade to direct the U.S. Customs Service to reconsider their planned consolidation in view of the foregoing.

I would like to thank the Chairman and Members of the Subcommittee on International Trade for the opportunity to present this statement.

## Comments by Ted Thorjussen, President, West Gulf Maritme Association

I am Ted Thorjussen, President of the West Gulf Maritime Association. The West Gulf Maritime Association is comprised of seventy-two (72) member companies actively engaged in the maritime industry in all the Texas ports and the Port of Lake Charles, Louisiana. Our members are ship owners, ship agents and stevedores which represent more than five hundred (500) domestic and foreign principals acting for thousands of vessels calling at our ports every year.

We understand that the U. S. Customs Service, in their FY 86 Appropriations Request, has proposed to consolidate the Houston and the Port Arthur Customs Districts into the Dallas District. We further understand this would also move the Appraisal Center (import specialists) from Houston to Dallas.

The West Gulf Maritime Association opposes this consolidation in the strongest possible way since it will have a definite and distinct detrimental impact on the maritime industry and the importing comminity, and we frankly do not believe consolidation per se will result in any worthwhile savings to the Customs Service. If there are positions in both districts that are either overlapping, or not fully utilized, consolidation should be done within the districts. Certainly

BOTH DISTRICTS ARE LARGE ENOUGH TO KEEP TOP LEVEL MANAGEMENT FULLY OCCUPIED IF STRUCTURED EFFICIENTLY INTERNALLY.

THE PORT OF HOUSTON IS THE MAJOR SEAPORT IN THE STATE OF TEXAS, AND HAS FOR SEVERAL OF THE IMMEDIATE PAST YEARS BEEN THE LEADING, OR ONE OF THE LEADING, SEAPORTS IN THE NATION IN INTERNATIONAL WATERBORNE COMMERCE. ANY ACTION THAT WILL REDUCE THE EFFECTIVENESS OF THE CUSTOMS SERVICE FROM THE PRESENT LEVEL CANNOT BE TOLERATED. CONSOLIDATION WOULD, IN EFFECT, REMOVE THE MANAGEMENT TEAM FROM THE SEAPORTS. THE AFFECT WOULD BE A SLOW DOWN IN THE HANDLING AND OPERATION OF VESSELS AND A SLOW DOWN IN THE MOVEMENT OF CARGO. SINCE MANAGEMENT IS GENERALLY RESPONSIBLE FOR THE EFFICENCY AND PRODUCTIVITY OF AN OPERATION, THERE IS NO DOUBT A SLOW DOWN WILL OCCUR WHEN FACED WITH OTHER THAN ROUTINE TRANSACTIONS. THOSE OF US THAT ARE PART OF MANAGEMENT CERTAINLY LIKE TO THINK WE CONTRIBUTE TO A SMOOTH OPERATION.

DUE TO THE UNQUESTIONED IMPORTANCE OF THE PORT OF HOUSTON, TO THE CITY OF HOUSTON, TO HARRIS COUNTY, AND THE COMMUNITY IN GENERAL, WE WANT TO VOICE OUR CONCERN AND LODGE OUR PROTEST IN THE STRONGEST POSSIBLE TERMS.

We are, however, not only concerned with the Port of Houston in this respect. As proposed by the Customs Service, the consolidation would include the Port Arthur District which consist of the ports of Beaumont, Port Arthur and Orange. Further, the Houston Customs District encompasses the ports of Galveston, Texas City, Freeport and Corpus Christi. These ports combined could match in importance any port, any where at any time, and they must not be allowed to be left without proper management and attention by the Customs Service.

The argument, should it be put forth by the Customs Service, that service to the community will not be affected, reduced or diminished after such consolidation, is not acceptable and not factual. There is no substitute for personal contact and consultation when problems arise. For the maritime industry and the trade community in the Texas ports, which is the leading state in the nation in waterborne commerce, having to go to Dallas, some 240 miles inland, to discuss and resolve their problems is nothing short of absurd.

In 1984, 102,430 entries were filed in Houston vs 61,723 in Dallas. The value of the import merchandise, however, was 20.3 billion in Houston vs 1.5 billion in Dallas, and duty collected by the Custom

SERVICE WAS 407.1 MILLION IN HOUSTON VS 107.8 IN DALLAS. HOUSTON HAS 116 INSPECTORS AND 29 IMPORT SPECIALISTS, WHILE DALLAS HAS 43 INSPECTORS AND 11 IMPORT SPECIALISTS. THE DOLLAR VOLUME BOTH IN VALUE AND IN COLLECTIONS LEAVES NO DOUBT AS TO THE IMPORTANCE OF COMMERCE AND THE VOLUME OF CARGO THAT FLOWS THROUGH HOUSTON. IT SHOULD BE POINTED OUT THAT THE MERCHANDISE WHICH REQUIRES TIME CONSUMING ATTENTION BY THE IMPORT SPECIALISTS, SUCH AS STEEL PRODUCTS, AUTOS AND ORIENTAL FOOD STUFFS, ARE NOT ONLY COMMON COMMODITIES IN HOUSTON BUT COMMODITIES THAT MOVE IN HEAVY VOLUME. THESE COMMODITIES, DUE TO THE FACT THAT THEY ARE COMPLICATED AND TIME CONSUMING TO PROCESS BY THE IMPORT SPECIALISTS, EXPLAIN IN PART WHAT MAY APPEAR TO BE A DISPARITY IN THE NUMBER OF ENTRIES HANDLED.

THE FLOW OF COMMERCE IS EXTREMELY SENSITIVE TO ANY AND ALL INFLUENCES. ANY DETERIORATION IN HANDLING AND CLEARANCE PROCEDURES CAN NOT ONLY CHANGE DIRECTIONS OUT OF STATE BUT EVEN TO ANOTHER COAST. THE CUSTOMS SERVICE IS NOT INTENDED TO BE INFLUENTIAL IN DIRECTING COMMERCE IN THIS MANNER.

THE FACT THAT DALLAS IS, FOR ALL PRACTICAL PURPOSES, STRICTLY AN

AIRPORT OPERATION, AND THAT HOUSTON IS PREDOMINANTLY A SEAPORT OPERATION, SHOULD IN ITSELF BE THE STRONGEST ARGUMENT FOR KEEPING THE APPRAISAL CENTERS IN THEIR RESPECTIVE CITIES WHERE THEIR SERVICES ARE PERFORMED AND NEEDED. THE EXPERTISE REQUIRED IN HANDLING AND EVALUATING THE COMMODITIES ROUTINELY PROCESSED AT AN AIRPORT OPERATION VS A SEAPORT OPERATION ARE TOTALLY DIFFERENT.

FURTHER, THE HOUSTON CUSTOMS DISTRICT HAS OVER THE YEARS BEEN A FURTILE BREEDING GROUND FOR NEW IDEAS AND CONCEPTS. MANY TEST PROGRAMS WERE STARTED AND DEVELOPED IN HOUSTON THAT HAVE LATER BEEN IMPLEMENTED NATIONWIDE. AS AN EXAMPLE, WE CAN MENTION THE ACCEPT PROGRAM AND THE MODEL SEAPORT PROGRAM. BOTH THESE PILOT PROGRAMS WERE INITIALLY TESTED AND IMPLEMENTED IN THE HOUSTON DISTRICT AND ARE NOW BEING USED NATIONWIDE AS PART OF THE CUSTOMS SERVICE'S EFFORT TO MODERNIZE THEIR OPERATION AND DEVELOP THE AUTOMATED COMMERCIAL SYSTEM. THE DEVELOPMENT OF SUCH PROGRAMS HAS BEEN MADE POSSIBLE DUE TO THE GOOD WORKING RELATIONSHIP BETWEEN CUSTOMS MANAGEMENT ON THE LOCAL LEVEL AND THE INDUSTRY WHICH THEY SERVE. WE NEED THIS RELATIONSHIP TO CONTINUE AND WE NEED ACCESS TO LOCAL CUSTOMS MANAGEMENT, NOT ONLY FOR OUR OWN BENEFIT, BUT FOR THE BENEFIT OF ALL INVOLVED IN INTERNATIONAL TRADE.

The loss to Houston, and the other Texas port cities, and the communities they serve, if either the District Director, the Appraisal Center, or the management team was removed from the seaport locations which they serve, would be real, and devasting consequences can be expected to the international trade community with ripple effects spreading throughout the state.

We submit the proposal to merge the Houston and Port Arthur Customs Districts into the Dallas District is not in the best interest of the United States, and certainly not in the best interests of the State of Texas. We further submit that any savings experienced by the Customs Service from consolidating two large Districts will be nominal, if any at all. The added cost, and at best inconvenience to business and commerce would be substantial. Such consolidation would impede the flow of commerce through the major ports in Texas, which are also among the top 10 ports in the nation, and be detrimental to the maritime industry and the international trade community.

We urge you to make sure this does not happen.

Senator **Danforth**. Senator Bentsen?

Senator **Bentsen**. Thank you very much, Mr. Chairman. What functions does a district director perform? What will Houston lose if the district director moved to Dallas?

Mr. **Mooring**. The first thing we lose is the management team that makes the wheels turn.

Senator **Bentsen**. All right, but he says that doesn't make any difference, that you can have it done just as well from Dallas.

Mr. **Mooring**. I don't think it can be done from Dallas, when you consider that you have port directors now at the Houston airport, the Houston seaport, I think Port Arthur may be included here, Shreveport, Galveston—who is managing these people? The same person who is managing all of Dallas?

Senator **Bentsen**. I will tell you what is incredible to me. I strongly opposed moving the Dallas district office to Houston. I thought that was wrong, and yet I look at the reverse situation of merging an even larger port in Houston than you have in Dallas. If it didn't make any sense to move Dallas to Houston, I don't understand the reverse. You are certainly right about the distances that are involved.

Mr. **Ward**. Senator Bentsen, let me say something. You know and I am sure that the rest of the members of your subcommittee know that Houston and Dallas are two separate markets. They have their needs; we have our needs. We are not fighting against their needs. You can't do business by long-distance telephone. Business is conducted on a one-to-one basis, eyeball-to-eyeball. Houston is a much larger port. We need a district there, and we need the instant communication. It is just that simple.

Senator **Bentsen**. You know, just because you have more district offices in one State—here two of the largest cities in the United States, two of the most major ports in the United States, you are trying to treat Texas like Delaware.

Mr. **Ward**. Well, Delaware being the smallest State in the union, and Texas being the largest—but a fine State, sir, a fine State, but not as big as we are in industry. We are going through a period of economic development right now. It is critical to us that the district remain where it is rather than take this tool away from us. Thank you.

Senator **Danforth**. I am telling you the way Senator Bentsen has been attacking Montana and Delaware. [Laughter.]

Senator **Bentsen**. I am not attacking them. They are great States.

Mr. **Leach**. Senator, if you need three district directors in the New York City area, it is obvious that there is a function for them. And we think that that same argument applies to Houston. It would be the largest port in the United States without a district director if this went through.

Senator **Bentsen**. And when you say the largest one, it is—how would it rate?—give me those numbers again. Tonnage and foreign products moved in by ship.

Mr. **Leach**. Houston is the third largest port in the United States and the first in foreign tonnage.

Senator **Bentsen**. It just doesn't make any sense to me. Talking about a consolidation of two major ports like that. Now, tell me again about the appraisal officer, the inspector there, and what the problems are if you curtail the number. You have a real reduction in service when you do that, don't you?

Mr. **Mooring**. Yes, sir. The appraisal officer, the import specialist—whatever he might be called—is a specialist, or a team of specialists that concentrate on a smaller number of different products than an inspector, which is a generalist having to have some knowledge of thousands of items. Also, he is trained in valuation. He is trained in trademark, copyright, the special laws and regulations that Congress and the executive department have put on the textiles, the steels. A steel shipment does not move across the docks of Houston until the import specialist personally okays it.

Senator **Bentsen**. So, what do they do then? Pack it up on the dock and finally immobilize the dock?

Mr. **Mooring**. It won't be finally—it will be instantaneously.

Mr. **Arroyos**. Jim, let me answer that if you don't mind. Through Houston we have over 3.5 million tons of steel that moves and about 52,000 tons that move out. We have a tremendous amount of steel that moves in and out through Houston. The problem that we would encounter if we didn't have efficient processing of documents would be that the ship when it arrived would either have to wait for the documents to be processed and then we could load the cargo direct to conveyance—truck, rail, or barge. If we didn't have the documents processed and the vessel did not want to wait, the cargo would have to be discharged onto the pier, and I can assure you within a few hours the Port of Houston would be paralyzed. The pier would be completely covered up.

Senator **Bentsen**. I fought hard last year against the idea of moving Dallas to Houston, and I am going to fight just as hard against this ridiculous idea of merging Houston with Dallas. You already have problems, as you tell me, in the lack of personnel there, and I well understand that. And I think this kind of a reduction that they are talking about in personnel is actually very foolish, with the incredible escalation of trade going through Dallas. Thank you very much, Mr. Chairman.

Senator **Danforth**. Gentlemen, thank you. Did you have a comment, Mr. Arroyos?

Mr. **Arroyos**. I wanted to make one last point. Assistant Commissioner De Angelus pointed out that the commodity specialists now are concentrating on trouble items of import. Through Houston, steel is one of those, textiles, foods. We are big in all of them. We need two commodity specialists there to tackle the problems. In the case of steel, as you may be aware, the Department of Commerce now is requiring export certificates on imported steel from many countries. The only way that the documentation or the entry documents can be processed through the computer is prior review by the commodities specialist. Many times the documents get in our hands the day before the vessel arrives, and we must immediately act and get to the commodities specialist, get them reviewed, get them to the computer, get them processed and down to the pier before the vessel starts unloading. If we have to deal with someone away from Houston, we would have chaos. We could not operate.

Senator **Danforth**. Gentlemen, thank you all very much. This has been a very informative panel.

Mr. ARROYOS. Thank you, Senator.

Senator DANFORTH. Next we have Mr. Robert Tobias, president of the National Treasury Employees Union, Mr. Peter Mulloney, chairman of the American Iron and Steel Institute, and Mr. William Pendleton, director of corporate affairs for Carpenter Technology Corporation and chairman of the operating committee, Specialty Steel Industry of the United States, and chairman of the Stainless Steel Wire Industry of the United States. Mr. Tobias, thank you very much, and all of you, thank you for your patience in waiting for some 2½ hours in this hearing room. We appreciate your patience. Mr. Tobias, would you begin, please?

## STATEMENT OF ROBERT M. TOBIAS, PRESIDENT, THE NATIONAL TREASURY EMPLOYEES UNION, WASHINGTON, DC

Mr. TOBIAS. Thank you very much, Mr. Chairman. I am Robert Tobias, president of the National Treasury Employees Union. With me is Paul Suplizio. I very much appreciate the interest of this committee in the U.S. Customs Service. As we believe, a crisis of enforcement, very, very long in the making, confronts Customs today. We have sharply rising narcotics traffic and a trade compliance gap that we believe is about $40 billion.

By all indicators, 1984 was a disastrous year for Federal narcotics interdiction efforts. Although drug seizures are larger than ever, which is a credit to the Customs, DEA, Coast Guard, and law enforcement agencies, we believe that there is much more drug traffic getting into this country. In answer to a question that Senator Long earlier raised, we believe based on statistics that were supplied by DEA, which is part of our testimony on table 2, that cocaine supplies have been increasing at the rate of 30 percent a year and marijuana at a 7-percent rate. No more than 10 percent of the cocaine and heroin and 16 percent of the marijuana supply is being interdicted.

Now, those statistics that are being prepared by DEA are judged by the House Select Committee on Narcotics as seriously low and, based on their statistics, we are only interdicting about 4 percent of the supply of heroin, 11 percent of cocaine and 3 percent of the marijuana that is coming into this country. There is certainly a great deal of evidence of the social cost of the traffic in drugs—increased crime rate, increased costs of schools and treatment facilities.

Our problem also is that this confrontation with narcotics traffickers has exploded into open warfare. You heard this morning that the Commissioner was testifying about customs inspectors being the subject of shots on the Texas border, and this is increasing more and more and more. An idea of the kind of drug threats that are faced by this country can be seen by the raid that was made in Mexico last November when 9,000 tons of marijuana—an amount equal to the annual output of Colombia, the world's largest producer—was seized.

That is an incredible amount of marijuana. The casualty of the resurgent drug trade has been the national narcotics border interdiction system headed by Vice President Bush. The system consisted of coordinating groups set up in six major cities to better direct the Federal interdiction effort. The difficulty is, as the General Accounting Office has pointed out, a coordinating agency is useless without sufficient assets. The resources are in no way adequate to the task it faces. Customs inspectors and patrol officers continue to account for a large percentage of total drug interdiction.

According to the Select Committee on Narcotics Abuse and Control, customs inspectors are responsible for making 57 percent of heroin seizures, 59 percent of cocaine seizures, 70 percent of hashish seizures, and 80 percent of marijuana seizures. Now, in spite of all of this, of course, we find that Customs is saying it can do more with less. In the face of this crisis, the administration has requested a reduction of 411 positions in Customs drug interdiction functions for fiscal year 1986.

And there was much discussion this morning about the reduction of the 411 positions, and I noted that Commissioner von Raab said that 111 of those positions would be reduced because they would be paid for by reimbursements by counties and States who wanted their efforts. Of course, I would have to question what happens if Congress doesn't enact that legislation. What happens to those 111 inspectors under those circumstances? And I think that Commissoner von Raab either misspoke or misrepresented the fact that there were customs inspectors classified as customs inspectors of the headquarters office. That is just wrong. That is dead wrong. This is the fifth consecutive year in which Congress has had to deal with totally unrealistic budget requests from this administration.

Customs drug interdiction resources have remained static since 1975, and again in response to a question that was raised earlier this morning, Customs' original budget submission to the Treasury was $699 million and 13,292 average positions, which was $50 million over the 1985 budget but zero request for an increase in staff—a zero request for an increase in staff.

Treasury's submission to OMB requested $674 million, about $20 million less, and an increase of about 60 average positions. OMB approved $699 million, which was the request that Customs made, but 12,531 positions, or 887 positions less than Customs requested. And so, even though there was this interplay between Customs and OMB and Treasury and so forth, originally Customs was—the request that Customs made was unrealistic and what OMB approved was unrealistic. I see my time is up, Mr. Chairman. I do want to request that the testimony that we prepared be submitted for the record.

Senator **Danforth**. It will be automatically. That is our general procedure.

Mr. **Tobias**. Because it points out in great detail and with a great deal of analysis how to justify and how it would be in the best interests of certainly the public and the taxpaying public that, rather than being reduced by 887 positions, that we embark on a program over the next 3 years of increasing by 2,100 the number of customs employees. We think it is economically sound. We think we can make money by doing it, and we think that it would be a down payment on increasing the drug interdiction effort. Thank you.

[Mr. Tobias' prepared statement follows:]

NTEU
The National Treasury Employees Union

STATEMENT OF

ROBERT M. TOBIAS
NATIONAL PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

TO THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE

HONORABLE JOHN C. DANFORTH
CHAIRMAN
U.S. CUSTOMS SERVICE, FY '86 AUTHORIZATION
U.S. SENATE

WASHINGTON, D.C.

APRIL 3, 1985

Mr. Chairman and Members of the Subcommittee:

I am Robert M. Tobias, President of the National Treasury Employees Union. With me are Paul Newton, Director of Legislation and Paul Suplizio, Legislative Consultant to NTEU. As the exclusive representative of over 120,000 Federal workers, including virtually all employees of the U.S. Customs Service worldwide, we are pleased to appeal before the subcommittee on International Trade to present our views on the authorization of appropriations for the U.S. Customs Service for Fiscal Year 1986.

A crisis of enforcement, long in the making, confronts Customs today. In 1984, sharply rising narcotics traffic made supplies of illicit drugs more abundant than ever, and a huge trade compliance gap brought $40 billion in illegal imports to our shores.

By all indicators, 1984 was a disasterous year for Federal narcotics interdiction efforts. Heroin purity and availability rose. Cocaine supply increased and its street price fell, encouraging its growing abuse by all income groups. While marijuana use has levelled off and actually declined among young people, over 20 million persons are using marijuana regularly.

Drug seizures are larger than ever, which is a credit to Customs, DEA, Coast Guard, and local law enforcement agencies. But larger seizures are also indicators of greater trafficker activity, which means that deterrence is not working. Cocaine supplies have been increasing at the rate of 30 percent a year, and marijuana at a 7% rate. No more than 10 percent of the cocaine and heroin, and 16 percent of the marijuana supply is being interdicted.

There is abundant evidence of the social costs of this traffic in the crime rate, in the job market, in shools and treatment facilities. When a firm in the State of Washington advertised for 750 workers, it was amazed that half failed a test for marijuana use. Here at home, we learn that Montgomery County high school seniors have a rate of cocaine abuse twice the national average. City Councilman John Ray recently pleaded with D.C. residents to eliminate drug abuse which is, in his words, "a form of genocide in the black community." Last month, the U.S. Supreme Court (in New Jersey v. T.L.O.) gave school officials broad power to search students because, said the Court, drug use and violence in the schools are major social problems.

The confrontation with narcotics traffickers has exploded into open warfare. DEA agent Enrique Camarena was abducted recently in Guadalajara, Mexico. We strongly condemn this outrage, and urge the Federal government to make every effort to ensure his abductors are brought to justice. The Minister of Justice of Columbia was assassinated by the drug mafia and the State Department has warned Americans traveling to that country of possible violence. The drug lords in Columbia, Bolivia, and Peru are growing record crops and boldly challenging the central government. Mexico's Narcotics Control Directorate lost seven agents last month in clashes with the estimated eighteen major drug trafficking gangs active there. A United Nations panel reported that drug trafficking organizations now threaten the security of some countries.

They and the international terrorists attempting to cross our borders require constant vigilance by Customs Inspectors.

An idea of the dimensions of the drug threat is provided by the Mexican government's raid on a Chihuahua province marijuana depot last November. It resulted in seizure of 9,000 tons of marijuana — an amount equal to the annual output of Columbia, the world's largest producer. Police confiscated dozens of truck trailers and freight containers and arrested more than 11,000 marijuana pickers, packers, and warehouse workers.

A casualty of the resurgent drug trade has been the National Narcotics Border Interdiction System, headed by Vice President Bush. The system consisted of coordinating groups set up in six major cities to better direct the Federal interdiction effort. The difficutly is, as the General Accounting Office has pointed out, a coordinating agency is useless without sufficient assets. The resources of NNBIS are in no way adequate to the task it faces.

Customs Inspectors and Patrol Officers continue to account for a large percentage of total drug interdiction. According to the Select Committee on Narcotics Abuse and Control, Customs Inspectors are responsible for making 57 percent of heroin seizures, 59 percent of cocaine seizures, 70 percent of hashish seizures, and 80 percent of marijuana seizures. Air and Marine Patrols account for large cocaine and marijuana seizures. However, despite recent improvements in the air program, the Government Operations Committee has reported that Customs lacks the operational capability to detect, intercept, and seize drug intruder aircraft on other than a sporadic basis.

In the face of this crisis, the Administration has requested a reduction of 411 positions in Customs drug interdiction functions for FY 1986. Of these, 206 are Inspector positions. This is the fifth consecutive year in which Congress has had to deal with a totally unrealistic budget request from this Administration. Customs drug interdiction resources have remained static since 1975, and what is needed is a significant increase to deal with the threat as it exists today.

If we are to make headway against traffickers who have demonstrated enormous versatility in shifting their operations from point to point along our 26,000 mile frontier to avoid detection, there is a critical need for additional Inspectors to deter traffickers from smuggling drugs by means of couriers and cargo shipments. This would leave direct air and sea movement as the sole means of border penetration, and traffickers would be vulnerable to our defenses in these areas provided we ensure adequate interdiction capability. At present, trafficking is so extensive and we are so lacking in Inspectors, and in air and marine capability, that the five Gulf Coast governors have called for turning the drug interdiction mission over to the Department of Defense.

We believe that a single agency should have charge of the nation's borders, and that agency should be Customs. We assume the Cabinet Council on Management and Administration will renew its proposal for consolidation of primary inspection responsibility at air and sea ports in Customs and at land border ports in INS. We strongly object to the fragmentation of narcotics enforcement by assigning primary inspection responsibility at land border ports to INS. Customs already fills a majority of the positions at those ports, and we believe INS lacks the ability to perform the drug enforcement mission. We urge the Subcommittee to move for immediate consolidation under Customs at air and sea ports, while maintaining the status quo at land borders until the air/sea consolidation can be evaluated. We believe the merit of having a single enforcement communications system applicable to all persons regardless of mode of arrival will clearly demonstrate the effectiveness of consolidation within Customs at land border ports.

A second aspect of the enforcement crisis we face is the commercial trade compliance gap, representing nearly $40 billion in unreported and counterfeit goods illegally entering the country, including goods such as steel and textiles entering in violation of specific trade agreements. This compliance gap poses an enormous burden of illegal and unfair competition upon American producers, costing an estimated one million jobs and $3 billion in lost revenue from duties.

The largest part of the compliance gap, $25 billion or 65 percent of the total, consists of unreported goods that go undetected due to insufficient cargo processing staff. Vehicles, vessels, and containers of all types are capable of carrying unreported goods. Another $12 billion or 31 percent consists of counterfeit products. In hearings last year, the House Energy and Commerce Committee exposed the grave danger, both to the economy and to the health and safety of our citizens, of phony drugs, aircraft parts, and other goods of inferior quality parading under an accepted brand name.

With merchandise entries soaring twenty percent last year as the nation recorded the largest trade deficit in its history, Customs (with resources that have remained static since 1975) elected to by-pass 60 percent of the entries, meaning entry documents were not subject to Import Specialist review to ensure proper valuation, tariff classification, and compliance with trade law requirements. In addition, Customs allowed 99 percent of containerized shipments (which comprise 70 percent of seaborne cargo) to enter without inspection. This sharply reduced enforcement placed importers on a virtual honor system, and is one of the principal causes of the trade compliance gap.

Further contributing to the compliance gap were the misguided judgements of Customs management. Unable to cope with the rising volume of entries, Customs has sought to make the honor system its basic principle of commercial clearance. Entries are accepted and duties collected as submitted by brokers, with audits used later to verify compliance. The principle vehicle for accomplishing this is the automated broker interface (ABI), by which brokers' computers transmit entry data to Custom's computers without Import Specialist review.

We believe this is giving away the store. Customs has documented a long history of significant broker errors: undervaluations and misclassifications that reduce duty and circumvent quota restrictions. This is not surprising because brokers, by tradition and instinct, wish to keep duties as low as possible and there has long been a game of cat and mouse between Customs and brokers. With over 10,000 tariff code classifications, and the possibility of classifying a product in more than one way, the opportunity for self-serving judgements -- unrestrained by any Customs review except post-audit -- would not adequately protect the revenue. Moreover, many tariff classifications can only be properly determined by laboratory analysis, and this cannot be accomplished with integrity after a shipment has entered the stream of commerce.

Last year, correction of broker errors through change liquidations alone resulted in collection of $180 million in additional revenue. Correction of errors through pre-entry review of entry documents generates another $50 million. Broker errors are obviously not insignificant.

If a shipment is classified to get around a quota, the damage to the domestic market will have occurred by the time an after-the-fact audit takes place. Import Specialists need to make admissability determinations and sample the shipment before goods enter the stream of commerce. They can detect quota errors and keep out harmful products, such as chemicals and medicines, that could endanger the public if allowed to enter freely. The idea of allowing the importer to be the judge of admissability is an abdication of responsibility by Customs.

It should be clear from the experience with by-pass to date that an honor system won't work. Since by-pass was instituted in FY 1983 the country has been deluged with unreported goods and counterfeits. The signal that something was wrong came from the affected industry, which had to hire its own investigators to convince Customs that it was losing business and jobs. A post-audit system, can't undo the damage from allowing illegal goods to enter the stream of commerce.

Under an honor system there is a reduced need for Import Specialists to review entry documents. Hence Customs has been trying to eliminate the corps of Import Specialists who are the very backbone of commercial trade law enforcement. As a result, Import Specialists are demoralized. Their expertise, acquired from specializing in a single commodity line, enables them to make proper classification, valuation, and admissability decisions. Without such expertise, the Customs Service would not be on a par with brokers and others in the trade. But because Customs lacks a clear concept for use of the Import Specialist, they are now being assigned to more than one commodity line, to "account specialist" roles handling a single importer's diverse array of products, and to commercial fraud roles helping to make commercial fraud cases. Everything, in other words, but the duty of reviewing entries which would ensure proper enforcement of the nation's trade laws.

In addition, Customs wishes to centralize and reduce the number of duty assessment locations, an action which would eliminate the Import Specialist's services at many ports and cut him off from the trade from which he derives his expertise.

We believe that Customs management has embarked on a misguided and ruinous course in commercial trade law enforcement, with the by-pass system, automated broker interface, and the new Import Specialist policies. We urge this Subcommittee to intervene to re-establish enforcement on the basis of Import Specialist review of entries, and to require that any new system be fully tested, evaluated, and approved by this Subcommittee prior to implementation.

We make the same recommendation with respect to the ACCEPT system for designating shipments to be inspected. ACCEPT is a by-pass system which allows shipments to be released without any inspection whatever. Theoretically, a computer is supposed to designate which shipments are "high risk" and which are "low risk". But in reality, Customs is in the dark about which shipments to inspect, and the decision is best left to the Inspector/Import Specialist team. The Subcommittee should require Customs to suspend implementation of ACCEPT until it has developed far more knowledge of the criteria for identifying "high risk" shipments, and has tested and evaluated an alternative system.

The Administration's FY 1986 budget request is totally inadequate to the crisis in trade law enforcment that exists today. The Administration requests a reduction of 437 positions in Tariff and Trade functions, including 244 Import Specialists. In the face of a $40 billion compliance gap, we cannot continue to by-pass 60 percent of entries and inspect less than 1 percent of containerized shipments. The urgent need is to add Customs cargo processing positions. This would not only protect U.S. manufacturers from illegal competition, it would also collect a large amount of additional revenue that would help reduce the Federal deficit.

Since 70 percent of entries are dutiable and only 40 percent are now being reviewed by Import Specialists, a large amount of revenue is potentially escaping attention. NTEU has computed that by adding 1,200 more commercial cargo processing positions (consisting of 900 Inspectors, 260 Import Specialists, and 40 Special Agents) to process 975,000 additional entries, $1.1 billion could be collected. The cost of the additional personnel would be $48.4 million. The Inspectors would, of course, perform narcotics interdiction as well as trade enforcement functions.

We recommend that the goal of adding 1,200 positions be achieved over a two-year period. For FY 1986, we recommend the addition of 650 positions over the FY 1985 level, including 400 Inspectors, 150 Import Specialists, 50 Customs Patrol Officers, and 50 Special Agents.

Appended to our testimony are tables that summarize what I have presented today. Tables 1 and 2 provide estimates of the commercial fraud and illicit narcotics threats to this country. Table 3 summarizes our budget recommendations for FY 1986. First, we recommend restoration of the 887 positions cut by the Administration at a cost of $46.6 million. Second, we recommend 650 additional positions at a cost of $30.4 million. The total amount of $77 million and 1,537 positions are added to the President's budget request, yielding our recommended figure of $716 million and 14,068 positions.

The remainder of our statement discusses policy issues in the areas of primary inspection consolidation, cargo processing, overtime, centralization of entry processing locations, and other areas on which the Subcommittee wishes to be kept informed. A summary of NTEU's recommendations is included at the end.

## INSPECTION AND CONTROL

### Customs/INS Consolidation

The Reagan Administration has announced a major policy decision to consolidate responsibility for primary inspection of incoming persons in the U.S. Customs Service at air and sea ports, and in the Immigration and Naturalization Service at land ports of entry. We know this Subcommittee will play a leading role in giving this proposal careful scrutiny, because of the vital interests affected and the Reagan Administration's apparent inability to referee the competing claims of the Treasury and Justice Departments.

There are many vital interests at stake in the design of an effective primary inspection system. Custom's Inspection and Control mission includes interdicting traffic in drugs, curbing illegal immigration, serving a growing domestic tourism industry, safeguarding American agriculture, controlling the export of critical technology, and enforcing currency controls, endangered species and environmental laws, and many other laws and regulations. Any streamlining of federal inspectional responsibilities must enhance our ability to accomplish these missions to protect our vital interests.

Speaking on behalf of the employees of the U.S. Customs Service, I have no doubt that assignment of primary inspectional responsibility to Customs at air and sea ports is sound and should be approved. A natural evolution in this direction has been underway for some time. The one-stop inspectional system in effect at many ports has required Customs Inspectors to carry out INS functions in processing travelers from abroad. To back up these duties, Customs has expanded its automated Treasury Enforcement Communications System (TECS). It is also experimenting with passport optical scanning equipment.

Customs Inspectors now outnumber INS Inspectors at all land border ports by 1,100 to 800, and are processing 58 percent of the traffic.

In the Southwest and California, Customs Inspectors and Patrol Officers play a vital role in curbing illegal immigration. Most of the foreign tourist and business traffic, and some of the illegal immigrant traffic flows through cities and land ports of entry. At land ports, all inspectors are one-stop, that is, the requirements of both agencies are enforced by a single Inspector. Customs Inspectors are inspecting millions of pedestrians and vehicles at border crossings each year, performing both Customs and Immigration functions.

We are dismayed at the Administration's failure to assign primary inspection responsibility at land border ports to Customs. We have no doubt that Customs Inspectors can carry out this responsibility, backed up by an INS secondary, as effectively at land border ports as at air and sea ports.

A way the Border Patrol could be provided the increased resources it requires would be for Customs to assume primary inspectional responsibilities at land border ports. The Border Patrol could then concentrate on its primary mission of apprehending illegal aliens between ports of entry, while Customs conducted primary inspection of travelers at the ports themselves.

Indications are that INS is spread too thin to be charged with carrying out the Customs primary inspection mission at land ports. The difficulty the agency has experienced in automating its files, rendering timely services, and coping with foreign students and professionals who come in legally and then overstay their permits, is well-known. According to John Crewdson, who won a Pulitzer prize for his stories on immigration in the New York Times, INS is stretched thin to transparency and stuck in its past. Fairly or unfairly, he calls it "the most Kafka-esque labyrinth thus far devised by government".

It is frequently noted that Customs, as the nation's primary border management agency, has had delegated to it by 40 other government agencies the responsibility for carrying out the laws and regulations of those agencies at the border. Customs has a broad and diverse mission as contrasted to the single mission of INS. We believe it would be far easier to train Customs Inspectors to absorb INS responsibilities at the border, than the reverse.

Transfer of primary inspection responsibilities to INS at land ports would be highly disruptive of major programs such as narcotics interdiction, Exodus, and currency control. It would require 40 different agencies to deal with INS concerning their enforcement requirements, virtually doubling the amount of coordination required since they would have to deal with two agencies rather than one. Such fragmentation of responsibility in border enforcement would not make sense.

Consider the plight of the importing community at all but the largest land ports on our Northern and Southern borders. Responsibility for inspecting commercial cargo transiting these ports would of necessity fall to the local INS port director, who would be required to process merchandise trade now handled by an experienced Customs Inspector - Import Specialist team. Since inspections would be made by INS, and entry documents would go to Customs, the fragmentation of responsibility in processing this trade is apparent.

Customs responds to the requirements of other law enforcement agencies by apprehending fugitives from justice. Each year Customs apprehends more wanted felons than any other law enforcement arm in the country. This is made possible by the training Inspectors receive, and by the modern Treasury Enforcement Communications System (TECS), which accesses the wanted persons, stolen vehicles, and other intelligence of the National Criminal Information Center. TECS permits rapid automatic search of over a million files. By contrast, the INS Lookout Book contains 60,000 manual entries, all of which are in the TECS data base. By training, number of in-place staff, and enforcement support systems, Customs is far better prepared to assume the primary inspection mission at land ports.

It should be remembered, too, that inspection of travelers for immigration purposes is a straightforward procedure. Of the 180 million aliens who present themselves for entry each year, no more than .3 percent are denied permission as a result of border inspection. The dimensions of the illegal immigration problem require much more enforcement capability between ports of entry than at those ports.

Only 12 percent of persons entering the country arrive at air and sea ports, the remaining 88 percent enter through land ports. If real progress is to be made in protecting the vital interests we have outlined, a single agency should have primary responsibility for all ports of entry. Customs' missions is exclusively border management. It is prepared to assume primary responsibility at our land ports, where it is already doing the bulk of the job.

There would be far-reaching benefits to moving to a single border management agency. These benefits would stem from the ability to standardize forms and procedures, and to apply modern technology to border clearance. The passport, visa, I-94 form, and baggage declaration presently used by the two agencies in the inspection process could be consolidated and automated to provide vast gains in facilitation, enforcement, and cost savings.

Combining the I-94 form with the Customs baggage declaration would eliminate millions of forms each year. Airlines could be provided with optical scanning passport terminals which would eliminate the need for their collecting the second copy of the I-94 on the alien's exit from the country. This would be a feasible way of gaining a reasonable degree of control over aliens entering and overstaying their visas or violating the terms of those visas.

In addition, with development of a machine-readable passport the primary Inspector would no longer have to enter a TECS query and primary inspections could be completed more smoothly and efficiently.

The consequence of not consolidating border management in a single agency nationwide is not merely the continuation of costly and redundant systems and paperwork. It means that government, industry, and the public will not realize the benefits and efficiencies that could be achieved through full consolidation.

Let me outline the Administration's specific plan, so you can better grasp its full dimensions.

At the present time, Customs has 900 positions committed to inspection at air and sea ports, and 1,064 positions at land ports. INS has 719 positions committed to inspection at air and sea ports, and 800 positions at land ports. If the Administration's plan is approved, Customs will absorb all but 214 positions of the INS positions at air and sea ports (including pre-clearance). The 214 positions would be for INS secondary inspections. At land ports, INS would absorb all but 426 Customs positions, which would be used for secondary inspections.

INS would thus gain 638 positions from Customs at land ports. The workload would not change. For the most part, the people doing the work would not change. Essentially, there would be a swap of uniforms.

Customs would similarly gain 442 positions at air and sea ports. Overall, there would be a net loss of 200 positions from Customs to INS, reflecting the fact that Customs has a greater commitment at land ports. This information is shown in Table 6, appended to our statement.

What budgetary savings are claimed for these transfers? Customs would lose 638 positions and $24 million; however, these resources would be transferred to INS. By the same token, INS resources at air and sea ports would be transferred to Customs. The net effect: 0. The government claims not a dollar of savings for its proposal!

The reason is that the proposal before us is a compromise, and was deliberately labeled as such by OMB when Treasury and Justice could not agree. By contrast, the senior working group that developed options for the Cabinet Council's consideration produced five options, all but one of which entailed budgetary savings.

These options were: 1) consolidate primary inspections in Customs; 2) consolidate primary inspections in INS; 3) consolidate primary inspections at airports in Customs, status quo at all other ports; 4) consolidate primary inspections at land ports in INS, status quo at all other ports; and 5) consolidate full responsibility for passenger inspections in INS and retain responsibility for cargo inspection in Customs.

Of these options, it is significant that the one with the greatest savings, and therefore the most cost effective, was the first, consolidation of primary inspections in Customs. According to Customs, Option 1 would save 973 staff-years and $27 million. INS disputed these figures by maintaining that if Customs took over primary inspections, INS would require additional positions for secondary inspections. However, this view was contrary to the working group's assumption that, through proper training, no additional resources for secondary would be required.

Customs performed a detailed study of the additional resources required at each port of entry for full consolidation within Customs. It concluded that with 518 additional positions and no additional overhead it could assume primary inspection mission at all ports. These 518 positions are less than half the amount presently expended by INS on primary inspections, so there would be substantial savings from full consolidation within Customs. After subtracting $10 million required to fund these 518 positions, the Working Group estimated annual savings of $27 million from this option.

Later, Customs stated that it could assume the entire primary inspectional mission with no increase in resources. This would make the annual savings a minimum of $37 million, not counting future gains from streamlined procedures and consolidation of support systems and other overhead.

In its study, Customs found that with only 286 additional positions it could take over the entire inspectional mission at land ports. There would be no requirement for additional overhead or support systems, which were already in place. Customs would simply absorb immigration inspections at considerable productivity savings, in the same manner that it has taken on responsibilities for 40 other agencies at the border.

By contrast, if the Administration's proposal is adopted, savings would be zero and the nation would end up with two border management agencies. As the draft Memorandum of Understanding between Customs and INS makes clear, INS would not only have responsibility for primary inspection of persons at land borders, but it would also have primary responsibility for all inspections, other than cargo inspections at the largest ports. At small ports, there will be no Customs presence and INS will inspect and process documentation for commercial merchandise. INS will perform both primary and secondary inspections to meet

Customs' requirements with respect to commercial cargo.

At larger ports, there will be a Customs secondary to inspect and process cargo. But the INS port director will have sole responsibility for primary inspection of all traffic so Customs will lack on-the-spot authority to insure control over cargo so that its requirements and those of other agencies are met. This situation would be highly disruptive of narcotics, commercial fraud, Exodus and other programs Customs is charged with enforcing.

Only at the largest ports (Detroit, Port Huron, Buffalo, Lewiston, and Champlain) would Customs continue to inspect commercial trucks entering designated commercial vehicle primary lanes, and process all cargo.

The Memorandum of Understanding makes INS the exclusive authority in dealing with the independent governing bodies that control the flow of traffic across the U.S. border with respect to the primary processing of private passenger vehicles, taxis, buses, pedestrians and passenger trains. It makes Customs the exclusive authority in dealing with the independent bodies that control the flow of commercial trucks across the U.S. border into the primary or otherwise designated lanes. Without doubt, the Administration's proposal would continue to divide responsibility for enforcement at our land borders, and do so in a manner that is highly disruptive of existing Customs programs.

The Administration's proposal also perpetuates wasteful duplication between Customs and INS. Under the Memorandum of Understanding, each agency maintains responsibility for its existing enforcement support system (TECS for Customs and Service Lookout Book/Central Index for INS), and each agency is authorized to continue to develop systems that will enhance primary inspection. This duplication would be avoided if primary inspection at all ports were consolidated in a single agency. Moreover, INS presently lacks an automated system except at one airport, so making Treasury the single manager for enforcement support systems is an obvious solution.

Let me now recapitulate the arguments for consolidation of primary inspections entirely within Customs.

First, Customs is the nation's principal border management agency. It carries out responsibilites for 40 other agencies, and can do so for INS. There should be a single agency charged with border inspections.

Second, Customs is better prepared than INS to do the job. It has more Inspectors than INS at all ports of entry. It is now performing 60 percent of all immigration primary inspections.

Third, border management is Customs' sole business, whereas INS has other responsibilities. INS devotes minimal resources to border inspection because only .3 percent of those inspected are denied entry, and the principal threats it must counter are aliens crossing between ports of entry and overstaying their entry visas.

Fourth, consolidation within Customs is the most cost-effective of the options available, with minimum savings of $27-37 million annually, according to data developed by a senior working group chaired by OMB.

Fifth, there is a large potential for future savings through streamlining forms and procedures, new technology, and new enforcement and facilitation techniques. The potential saving is less if consolidation extends to air and sea ports alone, which handle 12 percent of traffic, or if consolidation is divided between Customs and INS as in the Administration's proposal.

Sixth, consolidation within Customs will, during off-peak hours, provide additional staff for cargo inspection, thereby strengthening narcotics and commercial fraud enforcement programs. INS claims that this is off-set by its loss of capability to process aliens' claims and other adjudications which are processed by Inspectors during downtime, but its own studies have shown that distributing adjudication workload to ports, to fully utilize Inspector downtime is an efficient means of processing such workload.

Seventh, Customs has automated enforcement support systems, including TECS and intelligence support, in place and a long track record of developing such systems, whereas INS has little or no such experience.

Eighth, consolidation within Customs is the least disruptive and easiest to implement because it maintains continuity with 40 other Federal agencies whose border interests Customs represents, and it does not require carriers, port operators, and the business community to deal with two agencies instead of one.

Ninth, overtime costs to the government would be reduced by an estimated $1.5 million per year through carrier reimbursement of inspectional overtime.

Tenth, immigration inspection is a straightforward process which Customs Inspectors are already performing; they can more readily take on immigration inspection than having INS become involved in merchandise inspection, narcotics enforcement, Exodus, and the requirements of 40 other agencies.

The obverse of these points is that consolidation in INS would be an unrealistic solution. It would fragment total border inspection responsibilities to an ever greater degree, double the need for coordination for the 40 agencies requiring border support, give INS extensive new responsibilities which it is ill-prepared to absorb, and reduces narcotics enforcement at the worst possible time. It would reduce efficiency by maintaining redundant enforcement support systems, requiring the public to deal with two large border agencies whose interests may often conflict, and reducing the ability to shift resources between passenger and cargo inspection. When one considers the massive illegal immigration problem between ports of entry, and the major new tasks INS will confront if Simpson-Mazzoli is enacted, it becomes clear that consolidation in INS would be unwise. The nation needs a single border management agency, not two.

Nevertheless, INS has opposed consolidation within Customs. INS has argued that this option would: 1) fragment immigration procedures between two agencies and thus weaken immigration control at a time when document fraud is pervasive; 2) give Customs primary control of 61 percent of travelers who are aliens and should be under INS control; 3) require increased staff for INS secondary inspections resulting from more secondary referrals when Customs Inspectors perform primary inspections; and 4) require increased staff to process adjudications if primary inspectors cannot be utilized during downtime.

These arguments do not hold water. The major immigration threat is between, not at, ports of entry. While INS has an interest in 61 percent of the travelers who are aliens, Customs has an interest in 100 percent of them from the standpoint of narcotics, agriculture, public health and other enforcement requirements. Given that in excess of 500 experienced INS Inspectors would voluntarily transfer to Customs, and Customs Inspectors would receive additional immigration training, there is little basis for presuming a sharp increase in secondary referral. Finally, since consolidation could take place with little or no shift of funded positions from INS to Customs, INS would be left with sufficient positions to discharge its adjudications workload.

The times demand a single U.S. border inspection agency. This will permit INS to concentrate on the crux of the illegal immigration problem, border crossing between ports of entry. This Subcommittee can strike a blow for both stronger enforcement of the narcotics and trade laws, and stronger immigration control, by adopting our proposal.

## Adequacy of Inspectors at Ports of Entry

According to the U.S. Travel Data Center, visitors from abroad contribute more than $12 billion annually to the United States economy, generating over $1 billion in Federal, State, and local tax revenues and supporting 320,000 jobs. We have a national policy of encouraging foreign visitors to this country. Foreign visitors are now coming to the U.S. at the rate of 20 million a year, about 8 million from overseas and the remainder from Canada and Mexico.

This country has too much to lose by imposing roadblocks to the expansion of our tourism industry. Yet, as any visitor to our international air terminals and many other ports knows, even during peak hours many Customs processing lanes are closed for lack of staff.

The U.S. market share of international tourism has been falling in recent years. According to the Travel and Tourism Government Affairs Policy Council, the United States now gets only 8 percent of foreign tourists. A principal deterrent, according to the Congressional Tourism Caucus, is the long Customs lines that greet foreign visitors. The Air Transport Association, after a thorough survey, found that a minimum of 236 additional Inspectors was needed at airports alone.

In addition, many land border ports are still experiencing long lines during peak hours. Each year on the floor of the House, the Congressional delegation from Texas had demanded additional Inspectors for the ports of that State. Were it not for the economic crisis afflicting Mexico at the present time, and drying up much of the tourist traffic, the situation in the Southwest would be much worse than it is at present.

## Red/Green Passenger Clearance System

At several international airports, Customs has introduced a new passenger clearance system, known as Red/Green. The theory behind this system, which Customs seems to be touting as the wave of the future, is that by giving passengers the opportunity to self-select either the green lane (no Customs items to declare) or the red lane, passenger facilitation is improved without reducing enforcement. The system is augmented by roving Inspectors who monitor passengers both in primary lanes and baggage areas, and who may designate individuals for immediate by-pass or for detailed secondary inspection.

This system, like many Customs has introduced in the past, might work if sufficient numbers of Inspectors were available. For any system to work, there must be adequately staffed primary lanes and an adequately staffed secondary. In the Red/Green system, there must be sufficient numbers of Inspectors to conduct primary inspection of passengers selecting green lanes as well as red lanes.

To start with an insufficient number of Inspectors, an inadequate secondary, a few rovers, and a handful of green lanes where passengers are whisked through with only cursory examination because to do otherwise would create a log-jam or a riot, is simply non-enforcement disguised as "selectivity". Customs management is insisting that putting passengers on the honor system, with inadequate primary and secondary inspection, and general supervision by a few roving Inspectors is the answer to clearing the terminal before the next wide-body jet comes in.

The gain in passenger facilitation is much approved by the airport operators and carriers. It is only our country that suffers from lack of an effective deterrent against drug smugglers, terrorists, and criminals of all types. The only answer to adequate facilitation and enforcement is to provide an adequate staff.

Our Inspectors are doing a splendid, courageous job. The trouble is there are not enough of them. Customs touts their seizures of narcotics and other contraband as proof that enforcement has not flagged. This praise is merited. But Customs management should come clean and tell the full story, what is not being intercepted, what is getting through.

I'd like to read a brief passage from a letter our New York Chapter wrote to Customs managment officals:

> "On Tuesday, October 25, 1983, twelve Inspectors faced 1,447 passengers on one side of the Pan Am terminal. The passengers all arrived within 25 minutes. Once again, Inspectors refused to risk generating a riot and succeeded by ignoring their jobs."

Only adequate staff will allow a proper test of Red/Green. We trust the Subcommittee will approve our recommendations for additional Customs Inspector positions.

ACCEPT

The vast amount of commercial fraud designed to evade tariffs or quotas, to avoid anti-dumping or countervailing duty penalties, or to procure entry of counterfeit products has been amply documented by the Oversight and Investigations Subcommittee of the House Energy and Commerce Committee. The loss to U.S. firms from counterfeit products alone has been estimated by the International Trade Commission as $6-8 billion annually. Much of this loss could be prevented if adequate numbers of Inspectors were available to inspect commercial cargo at our ports of entry.

One of the best indicators available of the adequacy of cargo inspection is the rate of inspection of containerized shipments. Large containers now account for more than 70 percent of U.S. seaborne commerce, and are a growing proportion of air and surface shipments. In FY 1980 Customs performed a total of 81,234 inspections on a total of 2,800,000 arriving containers, for an inspection rate of 2.9 percent.

Since that time, the inspection rate has fallen as Customs introduced "selectivity" in cargo inspection through the ACCEPT program. ACCEPT, which stands for Automated Cargo Clearance and Enforcement Processing Test, is an area where Customs is moving headlong toward adoption of a new inspection system without proper evaluation of the impact on enforcement. The idea behind ACCEPT is that since Customs can make only a limited number of inspections, these should be concentrated on "high risk" shipments where the pay-off is potentially greater for the resources expended.

The problem is how to determine which are the "high risk" shipments. It is not possible to set up a computerized system for fingering the shipments to be checked, as ACCEPT attempts to do, without a great deal of data collection and construction of profiles of the characteristics of "high risk" shipments and "high risk" importers. There is no evidence that Customs has collected this data and constructed the profiles, let alone tested them. What we can expect from this system is "garbage out". The system will do a less than adequate job in guiding Inspectors to the shipments that need checking.

Since there are too few Inspectors, ACCEPT is a rationalization for performing fewer and fewer inspections while commercial fraud mounts. Customs contends that enforcement has not suffered, pointing to the results obtained from the efforts of Inspectors and Contraband Enforcement Teams. But the House Commerce Committee's hearings on the volume of commercial fraud have reduced this claim to tatters.

The fact is that a certain minimum level of inspections are required to provide a sufficiently high probability of interception of illegal shipments. When staff is insufficient the limited number of inspections may indeed produce results, but when those results are extended over the entire population of shipments, they demonstrate that a massive amount of illegality is not being caught. Customs' use of "selectivity" is simply a rationalization of the circumstances in which it finds itself lacking an adequate staff to do an effective job.

ACCEPT is supposed to be a computerized system, with a central computer designating to the Inspector which shipments are to be inspected. In many ports, however, a computer hook-up is not available, or may not be functioning, so a "manual" ACCEPT has been instituted. This means a headquarters supervisor designates the inspections to be made. From the standpoint of enforcement, both computerized and manual ACCEPT are utterly untested systems. Their principle effect is to limit the number of inspections, thereby speeding the flow of merchandise from docks to warehouses without inspection, greatly multiplying the opportunity for commercial fraud.

In order to implement ACCEPT, Customs has had to rewrite the Tariff Act of 1930. Section 499 of the Act requires inspection of not less than one package of every invoice and not less than one of every ten packages of imported merchandise. The law authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue. This provision allows the Treasury Secretary to reduce the number of inspections required, but not to totally abrogate the requirement for minimum inspection contained in the law. However, on September 10, 1981, Customs issued a regulation which allows the release of merchandise with no inspection at all.

Last year, we called for public hearings on ACCEPT and the related Customs regulation of September 10, 1981. We also urged this Subcommittee to bar any funds for implementation of ACCEPT until this panel is satisfied that the public interest is protected by adequate physical inspection of incoming cargo.

We again strongly urge the Subcommittee to act on this important matter. We also urge approval of additional Inspectors for cargo inspection and commercial fraud enforcement, as contained in NTEU's alternative budget (Table 3). We wish to note that the House Energy and Commerce Committee likewise recommends additional Inspectors for this task.

Operation Exodus

Operation Exodus was initiated by Customs in late 1981 to step-up enforcement of the export control laws. The FBI had discovered a pervasive pattern of activity by Soviet agents to obtain American technological secrets by means of bribes and other inducements. Their targets were lasers, fiber optics, computers, and telecommunications equipment.

The Senate Permanent Investigations Subcommittee after a two-year inquiry has confirmed that the Soviets are engaged in a massive effort to acquire Western technology by any means, and have been able to use such technology to modernize and speed the development of their weapons systems. Such advances require responses by our own military establishment, and this increases the size of our defense budget.

As a CIA report on this subject explains:

> "It is clear that the Western military expenditures needed to overcome or defend against the

military capabilities derived by the acquisition of Western technology far outweigh the West's earnings from the legal sale to the Soviets of its equipment and technology."

Examples continue to appear which demonstrate the need for this program. On February 4th 1985 it was reported that 17 Hughes helicopters, which can readily be converted to military use, were illegally diverted to North Korea by the West German distributor for Hughes. In addition, another 70 helicopters the same distributor purchased from Hughes are not accounted for and may also have been sold to North Korea.

Operation Exodus has scored some notable successes, but is handicapped by understaffing and lack of cooperation between Customs and Commerce. Only 292 staff-years are allocated to the program, and Commerce refuses to allow Customs access to its files on licensors. At the same time, Commerce has stepped up its enforcement efforts in the hope of becoming the border enforcement agency for exports. The export enforcement mission is further complicated by Customs' enforcement of the Munitions Control Act for the State Department. We urge this Subcommittee to take a strong stance in favor of a single agency - Customs - being in charge at our borders, and to communicate this position to the committees responsible for re-authorization of the Export Administration Bill.

## Inspectional Overtime

Inspectional overtime has become a critical resource for meeting Custom's growing demands for clearance of passengers and cargo. For nearly a decade, a virtually static inspectional force has had to process a growing number of air travelers and cargo shipments. With its workforce limited by OMB personnel ceilings, Customs inspectional overtime expanded to fill the gap between workload and resources.

An Inspector with overtime earnings of $15,000-$20,000 a year works an average of 62 hours a week, 52 weeks a year. A 1981 Customs study of overtime showed that, in addition to a normal 40-hour week, the average Inspector is required to work three of every four Sundays, one Saturday per month, and seven week-day overtime assignments per month. The requirement for this overtime is driven by the demand of carriers for Customs inspectional services during other than normal duty hours of the port. Because of the growing workload and limited staff, it is evident that an extensive commitment to inspectional overtime is essential if Customs is to accomplish its mission.

For Inspectors to make themselves available such long hours, particularly on Sundays and holidays when other citizens are vacationing, adequate monetary incentive must be provided. The most recent data collected by Customs shows that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays and 2.4 times the regular rate on the other days of the week. The Customs' study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the worksite. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. The study also confirms that the average Inspector works 7 hours on each Sunday assignment, and an average of 8 hours if holidays are included in this figure.

We are convinced that the frequent call-backs, the late-night hours spent away from home, and the physically demanding nature of inspectional duties justifies the present rate of overtime pay. Moreover, these rates of pay conform with the prevailing overtime rates in the private sector which normally establishes double time premiums for call-back and night work, and where the typical practice is triple time for Sunday overtime and double time and one-half for holiday work.

Nevertheless, the Administration has recommended a joint Customs/INS inspectional overtime bill which would establish the rate of pay for inspectional overtime essentially at time and one-half. We believe such provision would not only be unfair to Inspectors, but would reduce the incentive to continue to work long hours at a time when the Service is stretched thin and already lacks adequate staff. Such proposals only go to show how insensitive and callous this Administration can be. We would like to offer those who helped prepare this proposal the opportunity to work with a Customs Inspector for just one day at one of our airports. We believe they would begin to question the desirability of perpetuating this outrage. We urge the Subcommittee not to be deceived by their specious claims, and to firmly reject any attempt to modify the rates of pay specified in the Act of 1911.

**We also urge the Subcommittee to remove the $25,000 cap on Customs Inspector overtime earnings. The overtime cap has long outlived its usefulness.**

Proponents of the cap claim to be acting in the employee's interest by limiting the amount of overtime Inspectors could be compelled to work. However, the overtime cap had exactly the opposite effect and completely eliminated the voluntary aspect of overtime. This is because Inspectors are required to rotate overtime assignments so that the earnings of all can be equalized.

Prior to imposition of the cap, Inspectors were able to work out an allocation of overtime duty which took into account their personal needs. Inspectors who wanted to earn more money and were willing to sacrifice their free time or work late at night volunteered for overtime, while Inspectors who had family obligations or other commitments did not. And although this system lead to an imbalance in earnings, morale, efficiency, and productivity were greatly enhanced.

We strongly believe that employees willing and able to work overtime without foregoing family obligations should be permitted to do so, and that the burden of forced overtime should be minimized. Morale at the workplace is fostered by allowing individual preferences to play a greater role in the assignment of overtime, not by a rigid policy of equalization of earnings.

Customs itself has urged Congress to remove the overtime cap. Treasury Department officials have testified that, in addition to costing $1 million a year to administer, the cap is preventing Customs from properly allocating its limited resources among ports experiencing different rates of growth. It should also be noted that about 60 percent of all overtime is reimbursed to the government by the carrier which requests clearance after normal port hours.

Delegation of authority to waive the cap has been granted to Customs by Congress. We submit that the time has come to remove the cap completely, in favor of Customs internal controls. We strongly urge the Subcommittee to adopt this course of action.

## Adequacy of Inspectors for Commercial Fraud Enforcement

Last year, NTEU conducted an analysis to determine the number of Inspectors required in containerized cargo processing essential to commercial fraud enforcement. Our analysis showed that in order to raise the number of inspections to 105,000 per year, 483 additional Inspectors would be required.

This year, NTEU performed a further analysis of Inspector requirements for cargo processing based on historic data showing a fairly constant ratio of entries to cargo processing based positions. This analysis is presented in Tables 7-12 appended to our testimony. It shows that an additional 900 Inspectors would be required to process about a million additional entries now being by-passed, with a net revenue gain of $1 billion.

Many containers proceed in-bond to Customs bonded warehouses. Customs has removed its physical presence from bonded warehouses, in effect placing the warehouse proprieters on the honor system. We have urged the Subcommittee to halt this program, arguing that the potential for fraud, abuse, and scandal is huge. Our fears have now been amply borne out by the findings of the Oversight and Investigations Subcommittee of the House Energy and Commerce Committee. That Subcommittee has urged re-establishment of the Customs warehouse program, with a permanent Customs presence at the warehouses. We fully support this move, and urge you to authorize the required resources, estimated to be 300 average positions.

### Radio Preliminary Entry

We would like to bring to this Subcommittee's attention a new wrinkle in Customs management's attempt to obfuscate the woefully inadequate enforcement resources by instituting a new entry procedure touted as a "modernistic approach to an antiquated system". Called the "Radio Preliminary Entry" (RPE) it would allow masters of vessels to receive preliminary entry by radio-telecommunications or other electronic transmissions of manifest data obviating the physical boarding of the vessel by Customs officers. The procedure allows vessels to enter a port without the mandatory physical boarding in order to grant preliminary entry. Formal entry of the vessel must be made within 48 hours of arrival. It's but another example of opening our borders without physical inspection and is fraught with the potential of increasing the flood of narcotics and conterfeit goods into this country.

## TARIFF AND TRADE

### By-Pass

NTEU has brought the growing shortage of Import Specialists relative to rising entry workload, and the disasterous policy of "by-pass" by which Import Specialists do not review 60 percent of entries, to the attention of this Subcommittee for the past four years. The dimensions of the problem have now become painfully obvious. Relative to Hitachi's attempt to acquire design information and component parts of IBM's latest generation of business computers, Chairman Dingell wrote Chairman Royal last week:

> "As recorded on tape, the FBI undercover agent asked senior Hitachi engineers how they planned to get past Customs, what they believed to be stolen IBM component parts, which were the size of a pool table. Amidst laughter, the Hitachi officials stated that U.S. Customs is no problem."

Just recently, the U.S. International Trade Commission and the House Oversight and Investigations Subcommittee both released reports on the flood of counterfeit products entering the U.S. market. The ITC said that counterfeit goods cost U.S. companies $6-8 billion a year and the loss of 131,000 American jobs. The House Subcommittee said that the U.S. auto parts industry estimates that it loses $3 billion in sales each year because of counterfeit products and that "dangerously substandard parts" for helicopters have been faked. Said Chairman Dingell:

> "Any American who drives a car, flies in an aircraft or depends upon a wide range of medical devices, pharmaceuticals, or personal care products is placed in jeopardy because of substandard and dangerous foreign counterfeit products."

Calling funding for the Customs Service "woefully inadequate", Mr. Dingell said that "the decline in this country's international competitiveness is due, at least in part, to inadequate policing of our laws against illegal and unfair trade practices." The Reagan Administration's budget plan to cut the number of Customs employees is "a form of fraud against the American worker and consumer." Last year, the Chairman recommended a $29 million increase above full restoration of the cuts.

Shocked into action by Customs' inability to deal with a torrent of fraudulent imitations, many companies have hired their own investigators. Undercover witnesses at the Dingell hearings told how U.S. electronics technology is stolen, copied and exported back to this country. Apple Computer investigators indentified one plant in Taiwan capable of producing 3,000 fake Apple computers each month. When fake Apple computers appeared recently in Philadelphia, the company's agents tipped off Customs and a large quantity which had been shipped concealed as machinery was seized. The U.S. manufacturer of "Cabbage Patch dolls" led Customs to the importer of counterfeits which were unsafe by U.S. standards for flammability. Such efforts are a measure of the cost to U.S. industry of dealing with a problem that Customs lacks the resources to cope with.

Steel fraud is pervasive. The Chairman of the Steel Caucus, Senator John Heinz, told the Dingell committee that there are currently 40 active cases of steel import fraud under investigations. Describing the lack of physical facilities at U.S. ports for detecting fraud, and lax enforcement resulting in only minor slaps on the wrist, Senator Heinz concluded that:

> "Investigations proceed at a snail pace, fines are inconsequential, convictions rare, resources shrinking and the deterrent nill. Our government has unwittingly issued an invitation to 'fraud without fear'".

Senator Heinz pointed out that Commerce Secretary Baldridge had stated that aggressive enforcement of our trade laws could limit steel imports to 15 percent of the U.S. market. Customs' resources are inadequate to the task, and:

> "Customs has compounded the problem by proposing a program to drastically reduce the manpower levels of Import Specialists at the same time it has proclaimed

> import fraud as an area of renewed emphasis. Import Specialists are essential to fraud detection and they need additional support, not lip service. And they certainly do not need cutbacks."

This view was echoed by the Dingell committee which said:

> "When faced with the problem of unfair trade practices which result in a substantial loss of revenue to the government, the agency has apparently chosen to reduce entry document scrutiny rather than increase personnel."

The Dingell committee also faulted mis-utilization of Import Specialists which led to loss of expertise.

> "Certain ports, notably Chicago, have adopted a system of rotating the Import Specialists' commodity assignments, thus reducing whatever expertise may remain.....In one port with a very large textile and apparel fraud problem, the number of Import Specialists has been reduced to three. In addition, one was given the assignment of monitoring apparel imports for most of the world after only one week's training. In another port which handles a large volume of steel, an Import Specialist with only a few months of experience and virtually no expertise in steel was given that commodity line.....Part of this system is the 'by-pass' program, under which the entry documents are not reviewed at all. There is great pressure on district directors to increase the number of entries on 'by-pass'. "By-pass' guidelines are built into the performance evaluation requirements for Import Specialists in some ports. Even where they are not, the 'by-pass' goals often exceed 70 percent of all

entries of non-restricted merchandise. To me, this would appear to be a license to steal."

We believe that Mr. Dingell is dead right. Customs management seems determined to destroy the priceless expertise of the small corps of Import Specialists who are the nation's principal defence in these difficult times. By failing to fill Import Specialist vacancies, cutting off Import Specialists from the trade community by centralizing them at only a few ports, downgrading their role through by-pass systems, and introducing "import generalists" and "industry import specialists", Customs is gradually destroying the talent and expertise upon which the nation must depend to deter and prevent commercial fraud.

## Centralization of Entry Processing

Import Specialists are the technical and commodity experts who are the backbone of the Customs' trade operations. Import Specialists review entry summaries, ensure proper classification of merchandise in accordance with the Tariff Schedules, ensure that shipments are valued properly, scrutinize importations of sensitive commodities to enforce applicable quota or anti-dumping and countervailing duty requirements, make determinations that products are admissable under U.S. law, and enforce the requirements of many other agencies, such as the Agriculture Department and Food and Drug Administration, to ensure that imports are safe for consumption.

Import Specialists ensure that duties are correctly calculated and timely deposited with the Treasury. They are responsible for collecting over $10 billion in annual revenue. It is well recognized by Customs that the more

Import Specialists there are assigned, the greater the revenue collection will be.

Import Specialists are in daily contact with the business communities they serve. They hold office conferences with manufacturers and importers to explain U.S. trade laws and apply thier intimate knowledge of legal precedents and rulings to complicated questions relating to proposed importations. They make over 8,000 visits a year to the premises of importers to view product samples, verify invoices, inspect product markings, and explain Customs requirements. These contacts with the business community are an invaluable contribution to the economic health of the region they serve. Moreover, they benefit Customs by assuring fewer errors in entry documents and fewer change liquidations (a "change liquidation" of an entry requires an upward or downward adjustment of the duty deposited when the entry documents were presented).

It goes without saying that the presence of one or more Import Specialists at a port of entry is of inestimable value to the business community, serves as a stimulus to foreign trade, and may even cause importers, brokers, distributors and warehouses to locate in the vicinity. The closure of Import Specialist offices would constitute a visible downgrading of the stature of the community as a port of entry, and raise justifiable fear of the loss of business to other regions. For example, in arguing against the transfer of two Import Specialists from Milwaukee, the port director told Customs:

> "If we don't have a full customs service here we are deeply concerned that they (importers) might go to Chicago."

A city official stated that many industries located in Milwaukee because of the port, and:

> "If you're saving peanuts by moving these people down there (Chicago) I can't see the reason for it. This could be very, very devastating to us."

An official of General Electric Company added that GE needed Import Specialists in Milwaukee because of the complex nature of the product line imported by the company.

> "Face-to-face contact, understanding and education is critical to our business,"

he told Customs. GE estimated that elimination of the Import Specialists would cost the company $200,000 a year in additional broker fees, duties, communications, personnel and training.

We believe that loss of service to the business community is the paramount reason why the Subcommittee should reject Customs' plan to close down full-service entry processing offices at many locations. Customs has not taken adequately into consideration the effect upon the economic health of these communities, nor has it provided the economic impact statement required by executive order.

There are several other cogent reasons why centralization of entry processing is a bad idea. We would like to briefly touch on the most important of these.

First, Import Specialists' physical presence at ports is essential to ensuring that correct data is submitted on entries. One of the most important services of the Import Specialist is pre-acceptance review of entry documents. During these reviews, numerous errors are corrected that increase the number of "no change" liquidations and result in the collection of $53 million a year in added revenue -- more than the cost of the entire Import Specialist work force.

A Customs survey of rejected entries conducted in May 1980 found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification and valuation errors are the most numerous, and 549 entries of quota merchandise were erroneously presented as not subject to quota. In commenting on this last finding, the director of Customs' Office of Trade Operations stated:

> "The unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

As a result of pre-entry review of documents by Import Specialists, Customs saves large sums of money by not having to process change liquidation. Each change liquidation costs Customs approximately $20 to make. At present, about 70 percent of total entries are liquidated with no change. If pre-entry review is no longer performed for many importers and brokers because of the relocation of Import Specialists, the number of change entries is bound to rise significantly. A total of 7 million formal entries are anticipated by Customs in FY 1986. If just 10 percent fewer entries were liquidated with no change, the additional change liquidations would cost Customs $14 million to process. This is equal to the entire amount of the budgetary savings claimed for the centralization plan.

Second, one of the most important functions of Import Specialists is to make on-the-spot determinations of admissability. Under normal procedures, most imported goods can be released upon inspection by a Customs Inspector. However, there is a wide range of products for which immediate delivery cannot be allowed because of possible danger to the public health and safety, or economic loss, if the goods enter the stream of commerce. Such goods are quota-class merchandise, manufactures tht might infringe upon U.S. patents or copyrights, medicines and chemicals that require proper marking, foodstuffs that require Agriculture or FDA certifications to protect consumers, importations that might be in violation of endangered species laws, and shipments that require a country-of-origin determination before entry can be permitted. The presence of Import Specialists at the port, where they can physically inspect shipments and take samples for laboratory testing if required, is essential for proper admissability determinations. This function cannot be delegated to Inspectors because technical knowledge of commodities, and of applicable Customs rulings and legal precedents, is required.

Third, Import Specialists' personal knowledge of the importer and broker community, together with their ability to verify invoices by visiting premises to inspect purchase orders, vouchers, and records of payment, are important for the detection of commercial fraud and effective enforcement of our trade laws. Most commercial fraud cases start with a referral from an Import Specialist. This may trigger a follow-up regulatory audit or investigation by other components of Customs. These activities are uniquely dependent on the crucial role the Import Specialist plays in fraud detection through document verification and ability to note when something "isn't right" about an importation. If Import Specialists are moved hundreds of miles away from the importing community at a port, trade law enforcement is bound to suffer and instances of undetected commercial fraud will multiply to the detriment of Amercian workers and American industry.

Fourth, relocation of Import Specialists would break up the Import Specialist-Inspector team that is vital to the smooth operation of our ports of entry. The range of commodities that an Inspector must examine is too great to permit him the expertise needed for a proper inspection and determination of admissability. Consequently, the Inspector depends upon the Import Specialist to provide him with expert information, and the Import Specialist may often join in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is a greater likelihood of a shipment being released before its admissability is discovered. Import Specialists can best perform their duties on the line — close to the trade community and the Inspectors — and not at some location far removed from the ports of entry.

Fifth, Customs experimented with a similar system of centralized entry processing several years ago. Under this system, Import Specialists at different ports were assigned commodities for which they would have responsibility for classification and appraisement. Merchandise imported at one port might have its entry processed at another port. This experiment proved a complete failure. Not only did it take longer to process the entry, but it became virtually impossible to contact the Import Specialist who was actually responsible for reviewing it. As one Customs Broker recalled the experience:

> "This method proved to be very costly and cumbersome to the U.S. Customs Service; therefore, this plan or program was discontinued. Almost immediately, there was a remarkable improvement in the appraisement of merchandise.."

We believe Customs is now heading in the direction of repeating this unfortuante failure.

Customs asserts that its plan will achieve budgetary savings through reduced overhead, and facilitate automation by permitting larger numbers of entries to be processed at one central location. But automation will be of little benefit to Customs if much of the broker data submitted is incorrect. It is the presence of the Import Specialist in the trade community that permits a relatively high percentage of correct entries. The increase in the number of change liquidations resulting from centralization would alone wipe out the purported budgetary savings of $10 million. Moreover, Customs has failed to adequately consider the substantial economic impact on the communities that would lose Import Specialists, and the impact on industry of a reduced capability to detect commercial fraud.

We therefore call upon the Subcommittee to insist that Customs cease at once all current and planned relocations of Import Specialists, to lift the hiring freeze on Import Specialists in districts where such a freeze exists, and to promptly fill vacant Import Specialist positions at ports where such positons are authorized. In its authorization bill, the Subcommittee should require Customs not to implement any plan for the centralization of entry processing locations.

## Automated Broker Interface

The automated broker interface (ABI) allows Customs house brokers, representing importers, to electronically transmit data to Customs. The system is in use, or planned for use, at New Orleans, Buffalo, Houston, Philadelphia, and

Baltimore, with plans for expansion nationwide. Import Specialists have always strongly supported sensible automation efforts in the past, but in view of Servicewide by-pass requirements and continued high rates of broker errors on entry documents, most of which favor the importer, they fear that this new system will not provide adequate scope or judgement in processing entry documents. The result would be inadequate control over quota and restricted merchandise, loss of revenue, and reduced accuracy of trade statistics.

To illustrate, if a broker doesn't enter the right tariff classification, and the merchandise is of a type that requires sampling to determine admissability, samples won't be taken and the product will enter. On by-pass, the Import Specialist might not even see the entry. In this way, the system loses control.

Candy can be classified into 20 different categories under the tariff schedules, ranging from 0-17.5 percent duty. If the broker's clerk makes an error, and a Customs aide reviews the entry under by-pass, the scope for error is obvious. In the past, scissors have been invoiced as hand tools. Sugar has been invoiced as cookies; the entry for cookies is by-passed, but sugar is under quota.

Customs management objects to pre-entry review by Import Specialists of brokers' documentation. But this practice gives the Import Specialist the ability to correct errors in classification and value, and ensure accurate trade statistics are reported to the Census Bureau.

There have been many studies and tests by Customs which have documented various broker error rates, normally averaging about 30 percent. Nevertheless, Customs does not seem to have developed ABI with quality control in mind.

The problem is compounded by the by-pass system. The Dingell committee drew attention to this problem by recounting a test made by Customs last year.

> "Last spring, an experiment with 100 percent by-pass was carried out in the Chicago district. For 30 days, all entries of non-restricted merchandise were accepted as submitted. The Import Specialists then had 30 days to review these entries. Under the pressure of a doubled workload, the error rate uncovered was 21 percent. Even more important, Customs brokers and large importers had been officially notified of the test, thus skewing the results toward fewer errors. Moreover, 35 percent of all entries were on by-pass, and these were excluded from the test. The government collected $1,500,000 in duties that would have been lost under 100 percent by-pass."

The solution to these difficulties lies in 1) ensuring an adequate number of Import Specialists, 2) upgrading their role and maintaining their expertise, 3) distributing them more widely among the business community rather than centralizing them in fewer locations, 4) reducing the by-pass rate to an acceptable level, 5) ensuring that Import Specialists review all entries to determine whether by-pass should be made, 6) allocation of sufficient Import Specialist staff-years for pre-entry review and adequate quality assurance, and 7) consulting with Import Specialists before planning further development of the Automated Commercial System (which includes ABI) so their collective expertise can be brought to bear in shaping this new system.

## Adequacy of Number of Import Specialists

NTEU has completed three studies of the adequacy of the number of Import Specialists to process the growing entry workload and to deter commercial fraud. The first analysis is presented in Table 5. It shows that while the number of merchandise entries will more than double from three million to seven million between 1975 and 1986, the number of Import Specialists will decrease from 1,262 to 1,023 at present funding levels. Assuming an average annual rate of productivity growth of 4.3 percent per year, the number of entries each Import Specialist would be capable of processing in 1986 would be 4,000 entries. Dividing this into the entry workload yields 1,762 Import Specialists required as a minimum adequate staff, which is 740 positions above the present level.

At the request of the House Energy and Commerce Committee, NTEU last year developed estimates of the number of Import Specialists, Customs Inspectors, and Special Agents required for adequate enforcement and deterrence of commercial fraud at three different enforcement levels. For 20 percent by-pass, 1,400 Import Specialists would be required, or 358 above the current level. For details see our FY 1985 testimony.

A further study presented in Tables 7-12 appended to our testimony shows that 260 additional Import Specialists would permit processing of 975,000 additional entries, reducing the by-pass rate from 60 to 45 percent and yielding $1 billion in additional revenue. This assumes that marginal revenue is $1,200 per entry compared to an historic average of $2,000 per entry, and that the Import Specialists are part of a total package of 1,200 additional cargo processing personnel.

NTEU believes that Congress should establish as a goal an additional 500 Import Specialists, to be attained over a three-year period. Last year, 150 additional Import Specialist were authorized, but funds were not appropriated. We again strongly urge the Subcommittee, in the face of the massive trade law enforcement problems facing the nation, to allow an additional 150 Import Specialists above the current level for Fiscal Year 1986.

## TACTICAL INTERDICTION

The dedicated men and women of the Customs Patrol are responsible for the interdiction of narcotics and contraband entering the United States by air and sea or across our land borders. Patrol functions include air and marine interceptions, covert operations, participation with contraband enforcement teams in cargo enforcement operations, participation in Exodus and commercial fraud task forces, and use of mobile strike teams to respond to smuggling activities.

Special action units of the Customs Patrol are designed to ferret out activities which evade normal Customs processing. These special action units possess unique knowledge of cargo movement and documentation, vessel search and surveillance procedures, smuggling and other criminal techniques, and ability to operate from aircraft, ship, and surface vehicles. They work hand in glove with other elements of Customs, spanning the gap between inspections and investigations.

As we have previously stressed, Customs Patrol Officers at land ports of entry are specially trained to support the

Customs mission. The Administration's proposal to transfer 165 of these positions to INS would gravely weaken narcotics, Exodus, and commercial fraud enforcement efforts. These specialized resources should be left within Customs, and we strongly urge the Subcommittee to bar their transfer.

In testifying before the Select Committee on Narcotics Abuse and Control on the serious threat of narcotics smuggling by ship, the Commissioner of Customs stated, "The threat we face in the marine area is again tremendous, it's one particular area where we are going to try and beef-up our resources."

This year's budget provides some modest resources for the Marine Patrol, to include an experimental sea module. The task is huge and Customs' present fleet is antiquated, but the start is welcome.

This Customs Air Patrol must continue to be strongly supported, and we commend the Subcommittee for its efforts in developing a second Customs air module as well as procurement of aircraft, radar, and other assets from the Department of Defense.

We have earlier described the vast dimensions of the commercial fraud threat to this country. Countering this threat will require strengthened enforcement of Customs patrol at air, land, and sea ports of entry. We need stronger patrol of our docks and harbors, and better surveillance of bonded warehouses and foreign trade zones. The Dingell Subcommittee has stated:

> "That serious problems existed with bonded warehouses should be no surprise. Lax enforcement in previous years had led to several scandals involving goods disappearing from bonded warehouses."

> "Customs officials experience even more problems with foreign trade zone warehouses. These are intended to house merchandise for re-export. It is Customs' policy not to inspect the goods as they enter or leave the zones. In one part of the country, counterfeit jeans were being sold in foreign trade zones. Shirts reportedly scheduled for trans-shipment to South America were on their way to New Jersey when discovered. Perfume was magically transformed into baby shampoo and sand in another warehouse. Stories abound of containers full of goods entering foreign trade zones and exiting empty or filled with other goods. Falsification of paperwork appears to be a simple matter."

Customs will not get a handle on this problem without more special enforcment operations, strengthened contraband enforcement teams, and investigations in which Customs Patrol Officers participate. We believe there should be a long-range plan for strengthening this arm of the Service, and we ask the Subcommittee to approve 50 additional positions in Fiscal Year 1986. The funds for these positions are contained in the alternative budget we have presented.

## SUMMARY OF NTEU'S RECOMMENDATIONS

NTEU recommends:

Approval of $716,192,000 and 14,068 average positions for Customs for FY 1986. This is an increase of $77 million and 1,527 average positions above the Administration's budget request. The increase includes

$46.6 million and 877 average positions to restore cuts made by the Administration and maintain current operating levels. It also includes an additional $30.4 million and 650 average positions for 400 Inspectors, 150 Import Specialists, 50 Customs Patrol Officers, and 50 Special Agents to strengthen Customs enforcement.

Congress should set as a goal achievement of the following increases in Customs over the next three years:

a. 1,500 Inspectors as follows:

(1) 350 positions for airports (based on the Air Transport Association's recommendation of 236, plus 114 additional positions for passenger and cargo growth, staffing of new gateways, and assumption of INS primary inspections);

(2) 300 positions for land border ports (based upon Customs' study that 286 positions are required for assumption of INS primary inspections);

(3) 450 positions for commercial fraud enforcement based upon NTEU's study of the number required to raise the inspection rate for containerized shipments to 3.5 percent);

(4) 100 positions for export control (based upon the minimum required number of Inspectors for the Exodus program);

(5) 300 positions for inspection of warehouses and foreign trade zones (based upon number of positions in former Customs warehouse program).

b. 500 Import Specialists (based upon NTEU's studies).

c. 200 Customs Patrol Officers (for narcotics and commercial fraud enforcement).

d. 100 Special Agents (primarily for commercial fraud enforcement).

As the nation's principal border management agency, Customs should be assigned primary inspection responsibility at all ports of entry. The plan to consolidate primary inspections within Customs at air and sea ports should be approved and implemented, but the plan to transfer primary inspection responsibility and Customs Patrol positions at land ports to INS should be rejected. Customs should be assigned responsibility for primary inspection at land ports of entry, thereby freeing resources for the Border Patrol, which could concentrate on its mission of apprehending illegal aliens between ports of entry.

The Subcommittee should initiate a full inquiry into the ACCEPT program, and not authorize Customs to proceed with this program except in accordance with an approved plan, including phasing in of additional inspectional resources, to deter and minimize narcotics smuggling and commercial fraud.

The Customs warehouse program should be re-instituted, and there should be a greater Customs presence in foreign trade zones, as a deterrent to commercial fraud.

The Subcommittee should direct that Customs immediately establish criteria, and allocate sufficient Import Specialists, to ensure no more than 45 percent by-pass of merchandise entries in FY 1986. Import Specialists should review most entries to determine whether by-pass is appropriate. If the number of Import Specialists is insufficient to achieve this goal, Customs should so notify the Subcommittee so that it may make an appropriate recommendation in Congressional consideration of Treasury's supplemental appropriation request for FY 1986. Customs should be required to evaluate the results of 45 percent by-pass, including impact on revenue and commercial fraud prevention, in order to permit Congress to determine whether this rate should be adjusted.

The Subcommittee should direct Customs to upgrade and strengthen the Import Specialist's role as the backbone of commercial operations, including measures to enhance professinal development and improve expertise in the various commodity lines.

The Subcommittee should permanently bar the centralization of Customs' appraisement locations, and require Customs to give six-months notice of any planned port or office closures.

The Subcommittee should mandate allocation of a sufficient number of Import Specialists for pre-entry review of brokers' documentation, in order to minimize broker errors; provide for review and correction of data entered under the automated broker interface program; and consult with Import Specialists to design a quality assurance program for the Automated Commercial System (which includes ABI) to maintain the integrity of classification and valuation requirements, tariff and quota controls, data required for anti-dumping and countervailing duty determinations, and accuracy of foreign trade statistics.

Customs Patrol should be strengthened by a minimum of 50 positions at all ports of entry, proposed augmentation for the air support program should be provided, and the amount requested in the budget for integrated data telecommunications network and upgrading of TECS should be approved.

In view of the grave drug threat of the past decade, and the rise of international terrorism as well as greater law enforcement cooperation in the apprehension of criminals, the Subcommittee should recommend to the Congress and to the Committee on Post Office and Civil Service that Customs Inspectors be eligible for special early retirement as law enforcement officers.

The Subcommittee should recommend to the Congress that the uniform allowance of uniformed employees of the Customs Service be established at any amount up to $425 annually.

The Subcommittee should bar the expenditure of funds for implementation by Customs of radio preliminary entry of vessels, in view of the drug and commercial fraud threats and potential for abuse.

Mr. Chairman, this concludes our testimony. My staff and I will be happy to answer any questions.

TABLE 4

U.S. CUSTOMS SERVICE
Average Positions
by Category
FY 1972 - 1986

| Fiscal Year | Inspectors | Import Specialists | Patrol Officers | Agents | Total Customs |
|---|---|---|---|---|---|
| 1972 | 3,184 | 1,312 | 485 | 853 | 11,116 |
| 1973 | 3,472 | 1,304 | 736 | 956 | 11,772 |
| 1974 | 3,693 | 1,208 | 971 | 532 | 11,878 |
| 1975 | 3,803 | 1,262 | 1,152 | 582 | 13,076 |
| 1976 | 3,873 | 1,256 | 1,191 | 614 | 13,380 |
| 1977 | 3,943 | 1,204 | 1,365 | 603 | 13,228 |
| 1978 | 4,077 | 1,207 | 1,251 | 600 | 13,854 |
| 1979 | 4,174 | 1,236 | 1,211 | 577 | 14,061 |
| 1980 | 4,165 | 1,219 | 1,231 | 604 | 13,820 |
| 1981 | 4,379 | 1,165 | 1,332 | 597 | 13,316 |
| 1982 | 3,987 | 1,081 | | | 12,924 |
| 1983 | 4,122 | 1,027 | 1,134 | 701 | 12,898 |
| 1984 | 4,289 | 1,042 | 1,246 | 932 | 13,319 |
| 1985 | 4,372 | 1,023 | 1,246 | 1,009 | 13,418 |
| 1986 (ADMIN) | 4,166 | 766 | 1,246 | 1,009 | 12,531 |
| 1986 (NTEU) | 4,772 | 1,173 | 1,296 | 1,059 | 14,068 |

Source: U.S. Customs Service Budgets

"Table 6 - Administration's Customs/INS Consolidation Plan

WORKYEARS
NOW

| | AIR | LAND | SEA | PRECLEARANCE | TOTAL |
|---|---|---|---|---|---|
| INS Primary | 368 | 468 | 74 | 63 | 973 |
| Customs Primary | 463 | 638 | 47 | 124 | 1272 |
| TOTAL | 831 | 1106 | 121 | 187 | 2245 |
| | | | | | |
| INS Secondary | 154 | 330 | 30 | 30 | 544 |
| Customs Secondary | 186 | 426 | 12 | 67 | 691 |
| TOTAL | 340 | 756 | 42 | 97 | 1235 |
| | | | | | |
| GRAND TOTAL | 1171 | 1862 | 163 | 284 | 3480 |

WORKYEARS
AFTER

| | AIR | LAND | SEA | PRECLEARANCE | TOTAL |
|---|---|---|---|---|---|
| INS Primary | — | 1106 | — | 63 | 1169 |
| Customs Primary | 831 | — | 121 | 124 | 1076 |
| INS Secondary | 154 | 330 | 30 | 30 | 544 |
| Customs Secondary | 186 | 426 | 12 | 67 | 691 |
| TOTAL | 1171 | 1862 | 163 | 284 | 3480 |

FTE's ADDED OR (LOST)

| | AIR | LAND | SEA | PRECLEARANCE | CHANGE | CURRENT FTE's | GRAND TOTAL |
|---|---|---|---|---|---|---|---|
| INS Primary | (368) | +638 | (74) | — | +196 | 973 | 1169 |
| Customs Primary | +368 | (638) | +74 | — | (196) | 1272 | 1076 |
| INS Secondary | — | — | — | — | — | 544 | 544 |
| Customs Secondary | — | — | — | — | — | 691 | 691 |
| TOTAL | — | — | — | — | 0 | 3480 | 3480 |

INS increases from 1517 FTE's to 1713
Customs decreases from 1963 to 1767

## TABLE 1

## COMMERCIAL FRAUD THREAT TO THE UNITED STATES, FY 1986

| | ESTIMATED ANNUAL VALUE | ESTIMATED REVENUE LOSS |
|---|---|---|
| Goods Imported but Unreported | $25 Billion | |
| Counterfeit Goods | $12 Billion | |
| Goods Imported in Voiolation of Tariff and Trade Agreements | | |
| 1. Steel | $600 Million | |
| 2. Textiles | $500 Million | |
| 3. Other | $500 Million | |
| Grand Total | $38.6 Billion | $3.0 Billion[1] |

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[1] The average rate of duty on dutiable imports is 8%. Applying this rate to $38.6 billion yields a conservative estimate of the revenue loss, as fines, penalties and forfeitures, in addition to duties, would be involved in actual cases.

## TABLE 2

## ILLICIT DRUG THREAT TO THE UNITED STATES

### SUPPLY (Metric Tons)

| | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 | %Change 1978-1982 |
|---|---|---|---|---|---|---|---|---|
| HEROIN | 3.7-4.5 | 3.4-4.0 | 3.6-4.3 | 3.89 | 4.08 | | | 0 |
| COCAINE | 19-25 | 25-31 | 40-48 | 34-45 | 45-56 | | | +125% |
| MARIJUANA | 8,800-11,900 | 10,000-13,600 | 10,200-15,000 | 9,600-13,900 | 12,000-15,000 | | | +30% |
| TOTAL RETAIL VALUE (Billions of 1980 Dollars) | | | | | | | | |
| | | 56-74 | 70-90 | 75 | 85 | | | |
| REMOVAL (Quantity seized in metric tons) | | | | | | | | |
| HEROIN | .35 | .19 | .23 | .15 | .27 (7% of supply) | | | |
| COCAINE | 1.4 | 3.4 | 3.5 | 2.0 | 5.64 (11% of supply) | | | |
| MARIJUANA | 1191 | 671 | 731 | 937 | 1336 (10% of supply) | | | |

Source: Narcotics Intelligence Estimates

## TABLE 3

## U.S. CUSTOMS SERVICE FY 86 BUDGET REQUEST AND NTEU RECOMMENDATION

| | FY 86 BUDGET REQUEST | | ADD-ON REQUIRED FOR RESTORATION TO FY 85 LEVEL | | RECOMMENDED BASELINE FOR FY 86 APPROPRIATIONS | | NTEU RECOMMENDATION | | NTEU RECOMMENDED AUTHORIZATION | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (000) Amount | Avg. Positions | (000) Amount | Avg. Positions | (000) Amount | Avg. Positions | (000) Amount | Avg. Positions | (000) Amount | Avg. Positions |
| Inspection and Control | 298,305 | 6,225 | +19,205 | +351 | 317,510 | 6,576 | +17,480 | +400 | 334,990 | 6,976 |
| Tariff and Trade | 147,370 | 3,085 | +20,070 | +437 | 167,440 | 3,522 | +7,965 | +150 | 175,405 | 3,672 |
| Tactical Interdiction | 101,547 | 1,806 | +4,226 | +60 | 105,773 | 1,866 | +2,110 | +50 | 107,883 | 1,916 |
| Investigations | 91,880 | 1,415 | +3,139 | +39 | 95,019 | 1,454 | +2,895 | +50 | 97,914 | 1,504 |
| SUB-TOTAL | 639,102 | 12,531 | +46,640 | +887 | 685,742 | 13,418 | +30,450 | +650 | 716,192 | 14,068 |
| Operation & Maintenance, Air Interdiction Program | 60,425 | | -0- | -0- | 60,425 | -0- | -0- | -0- | 60,425 | |
| TOTAL | 699,527 | 12,531 | +46,640 | +887 | 746,167 | 13,418 | +30,450 | +650 | 776,617 | 14,068 |

TABLE 5

U.S. CUSTOMS SERVICE

Formal Entries of Merchandise and Number of Import Specialists

Fiscal Years 1972-1986

| Fiscal Year | Number of Import Specialists | Number of Formal Entries Of Merchandise (000) | Workload Entries Per Import Specialist | Average Annual Workload Growth | Productivity Per Import Specialist | Required Number of Import Specialists |
|---|---|---|---|---|---|---|
| 1972 | 1,312 | 2,866 | 2,441 | | | 1,312 |
| 1973 | 1,304 | 3,240 | | | | |
| 1974 | 1,208 | 3,206 | 2,650 | 1956-1974<br>4.3%<br>1976-1986<br>11.7% | 2,650 | 1,208 |
| 1975 | 1,262 | 3,015 | | | | |
| 1976 | 1,256 | 3,264 | | | | |
| 1977 | 1,204 | 3,690 | | | | |
| 1978 | 1,207 | 4,017 | | | | |
| 1979 | 1,236 | 4,384 | 3,547 | | | |
| 1980 | 1,219 | 4,374 | 3,588 | | | |
| 1981 | 1,165 | 4,588 | 3,938 | | | |
| 1982 | 1,081 | 4,753 | 4,397 | | | |
| 1983 | 1,027 | 5,314 | 5,174* | | 3,676 | 1,446 |
| 1984 | 1,042 | 6,421 | 6,162* | | 3,790 | 1,694 |
| 1985 | 1,023 | 6,742 | 6,590* | | 3,903 | 1,727 |
| 1986 (EST) | 766 | 7,079 | 9,241* | | 4,017 | 1,762 |

TABLE 5. CON'T.

NOTES:

1. Subcommittee on Trade, Committee on Ways & Means, Background Materials on H.R. 9220, July 14, 1976, p. 39, gives Import Specialists workload in FY 1974 and average annual growth of workload, 1956-1974. Workload is measured in number of entries per Import Specialist.

2. Bypass instituted by Customs, meaning 50-60 percent of entries are not reviewed by Import Specialists but are processed by clerical personnel.

3. Number of entries each Import Specialist is, on average, capable of processing, assuming 4.3% per annum productivity growth since 1974.

4. Assuming 4.3% productivity growth per annum since 1974, the number of entries each Import Specialist would be capable of handling in 1986 would be 2,650 + (2650 x .043x12) = 4017. Dividing this into 7,079,000 entries yields 1,762 as the required number of Import Specialists.

## TABLE 7

## SUMMARY OF CUSTOMS RESOURCE REQUIREMENTS, COSTS, AND ADDITIONAL REVENUE FROM INTENSIFIED COMMERCIAL FRAUD COMPLIANCE PROGRAM IN FY 1986

| ENFORCEMENT LEVEL | ADDITIONAL MERCHANDISE ENTRIES TO BE PROCESSED | ADDITIONAL REVENUE YIELD ($ MILLIONS) | ADDITIONAL COMMERCIAL CARGO PROCESSING POSITIONS REQUIRED | CONSISTING OF:[1] | | | TOTAL COST[2] ($ MILLIONS) | NET REVENUE YIELD ($ MILLIONS) |
|---|---|---|---|---|---|---|---|---|
| | | | | CUSTOMS INSPECTORS | IMPORT SPECIALISTS | SPECIAL AGENTS | | |
| I | 650,000 | 780 | 800 | 600 | 175 | 25 | 32.2 | 748 |
| II | 975,000 | 1,170 | 1,200 | 900 | 260 | 40 | 48.6 | 1,121 |
| III | 1,300,000 | 1,560 | 1,600 | 1,200 | 350 | 50 | 64.5 | 1,495 |

[1] Commercial cargo processing resources in the total force are approximately in the ratio of 3,000 inspectors to 1,000 import specialists to 127 special agents assigned to fraud. Using the ratios of 3:1 : .13 yields the numbers in these columns.

[2] Computed at $40,000 per inspector and import specialist staff year, and $50,000 per special agent staff year, including recruitment, equipment, and training.

## TABLE 8

### COMPUTATION OF ADDITIONAL RESOURCE REQUIREMENTS AND REVENUE YIELD FOR INTENSIFIED COMMERCIAL FRAUD COMPLIANCE PROGRAM, FY 1986

| FORMAL ENTRIES OF MERCHANDISE (000) | BY-PASS RATE [1] | ENTRIES TO BE REVIEWED (000) | NUMBER OF ADDITIONAL ENTRIES REVIEWED (000) | MARGINAL REVENUE COLLECTION PER ENTRY [2] | ADDITIONAL REVENUE YIELD FROM REVIEW OF ADDITIONAL ENTRIES ($ MILLIONS) | NUMBER OF ENTRIES PER AVERAGE COMMERCIAL CARGO PROCESSING POSITION [3] | ADDITIONAL AVERAGE POSITIONS REQUIRED TO PROCESS ADDITIONAL ENTRIES |
|---|---|---|---|---|---|---|---|
| 6,500 | 60% | 2,600 | | | | | |
| | | | 650 | $1,200 | 780 | 800 | 800 |
| 6,500 | 50% | 3,250 | | | | | |
| | | | 975 | $1,200 | 1,170 | 800 | 1,200 |
| 6,500 | 45% | 3,575 | | | | | |
| | | | 1,300 | $1,200 | 1,560 | 800 | 1,600 |
| 6,500 | 40% | 3,900 | | | | | |
| | | | 1,625 | $1,200 | 1,950 | 800 | 2,000 |
| 6,500 | 35% | 4,225 | | | | | |
| | | | 1,950 | $1,200 | 2,340 | 800 | 2,400 |
| 6,500 | 30% | 4,550 | | | | | |

TABLE 8. CON'T.

[1] By-pass is the rate established for entries not to be reviewed by an import specialist. Commercial fraud enforcement levels can be expressed in terms of a decreasing by-pass rate.

[2] See Table 7. $1,200 is selected as a conservative estimate.

[3] See Table 4 for derivation. Commercial cargo processing positions include inspectors, import specialists, and special agents assigned to fraud.

## TABLE 9. U.S. CUSTOMS SERVICE
## PROCESSING COMMERCIAL CARGO -- FORMAL ENTRIES PER AVERAGE POSITION
## FISCAL YEARS 1979 - 1986

| FISCAL YEAR | NUMBER OF FORMAL ENTRIES OF MERCHANDISE | CARGO PROCESSING STAFF POSITIONS | | | FORMAL ENTRIES PER POSITION |
|---|---|---|---|---|---|
| | | CARGO INSPECTION | TAFIFF AND TRADE | TOTAL | |
| 1979 | 4,384,000 | 4,174 | 4,170 | 8,344 | 525.4 |
| 1980 | 4,374,000 | 4,165 | 4,082 | 8,247 | 530.3 |
| 1981 | 4,588,000 | 4,379 | 3,837 | 8,216 | 558.4 |
| 1982 | 4,753,000 | 3,987 | 3,748 | 7,735 | 614.4 |
| 1983 | 5,314,000 | 4,122 | 3,595 | 7,717 | 688.6 |
| 1984 | 5,700,000 | 4,289 | 3,572 | 7,861 | 725.0 |
| 1985 | 6,100,000 | 4,365 | 3,572 | 7,937 | 768.5 |
| 1986 | 6,500,000 | | | | 791.6* |

* Projected at 3% productivity growth over 1985. Result is that in FY 1986 customs will have the capability of handling approximately 800 formal entries per average position in cargo processing.

## TABLE 10

## AVERAGE U.S. CUSTOMS REVENUE COLLECTION PER FORMAL MERCHANDISE ENTRY

## FY 1979 - 1984

| FISCAL YEAR | TOTAL REVENUE COLLECTION ($000) | TOTAL MERCHANDISE ENTRIES (000) | AVERAGE REVENUE COLLECTION PER ENTRY ($) |
|---|---|---|---|
| 1979 | 8,460,479 | 4,384 | 1,930 |
| 1980 | 8,230,100 | 4,374 | 1,882 |
| 1981 | 9,197,222 | 4,588 | 2,005 |
| 1982 | 9,981,342 | 4,753 | 2,100 |
| 1983 | 9,784,959 | 5,314 | 1,841 |
| 1984 | 11,678,238 | 5,769 | 2,024 |

## TABLE 11

### FORMAL ENTRIES BY TYPE, COMPARED TO BY-PASS RATES
### FY 1983 - 1986

| FISCAL YEAR | TOTAL FORMAL ENTRIES(000) | DUTIABLE ENTRIES (000) | PERCENT OF TOTAL [1] | TRADE PROGRAM ENTRIES (000) | PERCENT OF TOTAL [1] | BY-PASS RATE [2] (%) | ENTRIES REVIEWED (NOT BY-PASSED) (000) |
|---|---|---|---|---|---|---|---|
| 1983 | 5,314 | 3,720 | 70 | 2,179 | 41 | 50 | 2,657 |
| 1984 | 5,700 | 3,990 | 70 | 2,337 | 41 | 50 | 2,850 |
| 1985 | 6,100 | 4,270 | 70 | 2,501 | 41 | 60 | 2,440 |
| 1986 | 6,500 | 4,550 | 70 | 2,665 | 41 | 60 | 2,600 |

1. Actual FY 1983 data is extended to FY 84-86. Percentage of totals add up to more than 100 percent because of overlap between dutiable and trade program entries.

2. This is the percentage of entries not designated for import specialist review. By-pass procedures were established by customs because entry growth exceeded staff capability. At 60% by-pass, customs is barely applying enough resources to review trade program entries, and a substantial number of dutiable entries will not be reviewed.

## TABLE 12

## ESTIMATES OF AVERAGE AND MARGINAL REVENUE COLLECTION FOR U.S. CUSTOMS SERVICE

## FY 1986

| BY-PASS RATE | AVERAGE REVENUE PER ENTRY FACTOR[1] | MARGINAL REVENUE PER ENTRY FACTOR[2] | AVERAGE REVENUE COLLECTION PER ENTRY | MARGINAL REVENUE COLLECTION PER ENTRY |
|---|---|---|---|---|
| 60 | ..0 | .9 | $2,000 | 1,800 |
| 50 |  | .8 |  | 1,600 |
| 40 |  | .7 |  | 1,400 |
| 30 |  | .6 |  | 1,200 |
| 20 |  |  |  |  |
| 10 |  |  |  |  |

---

[1] The task is to estimate the marginal rate of return as the by-pass rate is reduced below 60%, that is, as additional entries are reviewed by import specialists. It is conservatively assumed that the marginal revenue is less than the average revenue. However, in the range between 60% and 30% by-pass, it is assumed that marginal revenue will remain high relative to average revenue, because dutiable imports are being by-passed.

[2] A factor of .9 means that marginal revenue is .9 times average revenue, and so on.

Senator DANFORTH. Thank you, sir. Mr. Mulloney.

## STATEMENT OF PETER B. MULLONEY, CHAIRMAN, COMMITTEE ON INTERNATIONAL TRADE OF THE AMERICAN IRON AND STEEL INSTITUTE, WASHINGTON, DC

Mr. MULLONEY. Thank you, Mr. Chairman. My name is Peter Mulloney. The witness list promoted me somewhat. I am chairman of the Committee on International Trade of the American Iron and Steel Institute. I am also vice president and assistant to the chairman of the United States Steel Corp.

My comments today are made on behalf of the American Iron and Steel Institute and its domestic member companies. The AISI has, at the invitation of the U.S. Customs Service, during the last decade participated in national training seminars for import specialists, laboratory personnel, and dockside inspectors, who process steel imports. This participation by AISI personnel and technical products experts from our member companies has had as its purpose improving the Customs Service employees' ability to properly classify imported steel products.

Requests by the Customs Service for technical training of this type have substantially increased in the last few years, and the AISI and its member companies have been pleased to cooperate. The AISI and its member companies have also been involved in other endeavors to assist the Customs Service in performing its functions. For example, during the last year, AISI member companies which have had plant closings, many caused by imports I might add, have offered excess metallographic equipment to the Customs Service Laboratory System.

In addition, the AISI is in the process of establishing a customs fraud alert network which will provide Customs fraud leads to the Customs Service's Steel Tripwire Program officials. We are particularly concerned that the Customs Service is becoming increasingly incapable of performing its functions with regard to steel imports despite a highly motivated and exceptional work force. While on the one hand, the number of inspectors, import specialists, and laboratory personnel has declined sharply over the last few years, steel imports have increased substantially.

Moreover, because of the increased number of unfair trade cases and subsequent antidumping and countervailing duty findings and other actions taken under U.S. trade laws, the workload of the Customs Service has increased substantially. In its proposed fiscal year 1986 budget, the Customs Service has stated that it would eliminate 206 inspectors, 244 import specialists, 50 lab technicians, and 19 agents. These employees are all frontline personnel who inspect and classify imports and build evidence against potentially fraudulent imports. We believe that these are precisely the areas that the Customs Service needs to beef up.

We fully support the Custom Service's Automation Program. Port shopping, for example, would be greatly reduced as a problem. If a fraudulent importer knew that a scheme, once detected at one port, could not be attempted at another port because the computer would have notified all ports of entry of the scheme and the name of the importer. Unfortunately, these computer systems are either still on the drawing boards, are incomplete, or have not reached their potential, and many of the dedicated and highly trained Customs employees are gone.

Further, we take strong issue with the Customs Service on the question of staffing reductions, that is, more computers and fewer people. It takes an import specialist to process a steel entry—not a computer. Computers are a tool, not a substitute for skilled people. That Customs fraud is a serious problem impacting on the U.S. steel market, evident by the Customs Service's establishment of the Steel Tripwire Program in 1984 and the now increasing list of major trading companies and steel producers which have been successfully prosecuted.

We understand that the Customs Service's Steel Tripwire Program has 75 significant customs fraud cases in process today. In hearings held last year by Congressman Dingell's Oversight Subcommittee, it was estimated by Customs import specialists who testified that 30 to 50 percent of all entry documents are in error in some way. While not all of these involve customs fraud, it is clear that attempts at evasion of U.S. duty, including fraud, are included in some substantial percentage of these errors.

The import specialists testified that nearly all of the errors were in the importers' favor. The shortage of key Customs Service employees—import specialists, dockside inspectors, and laboratory personnel—has resulted in the Customs Service becoming unable to properly process import documents on a timely basis. The effective enforcement of U.S. trade laws becomes completely impossible as document processing lags by months the release of goods into U.S. commerce. If the staff problems already evidenced in the Customs Service continue, in the long run—and the long run is almost here—the Customs Service will become unable to enforce findings made under U.S. trade laws. The President's Steel Program involving bilateral arrangements is currently being established by the USTR.

This program requires full and timely monitoring of imports by country of origin and by precise product identification. It is hard to imagine that this process can be successful if the Customs Service is unable to monitor imports in a prompt and accurate manner.

One final direct comment, Mr. Chairman. We believe that the Congress should increase substantially the U.S Customs Service's budget for fiscal year 1986 in order that the trend of the last few years is reversed. Specifically, we believe that the Customs Service budget should include sufficient funds to fill the reported 500 vacancies which it had prior to the passage of the Trade and Tariff Act of 1984.

In addition, import-sensitive product lines such as steel should have substantially more manpower attached to them in order that the Customs Service will be able to give more time to these critical imports. Thank you very much, Mr. Chairman.

Senator Danforth. Thank you, sir. Mr. Pendleton?

(Mr. Mulloney's prepared statement follows:]

## STATEMENT OF PETER B. MULLONEY, CHAIRMAN, COMMITTEE ON INTERNATIONAL TRADE OF THE AMERICAN IRON AND STEEL INSTITUTE

My name is Peter Black Mulloney. I am Chairman of the Committee on International Trade of the American Iron and Steel Institute. I am also Vice President and Assistant to the Chairman of U.S. Steel Corporation. My comments today are made on behalf of the American Iron and Steel Institute and its domestic member companies.

The American Iron and Steel Institute has, at the invitation of the U.S. Customs Service, during the last decade participated in national training seminars for import specialists, laboratory personnel and dockside inspectors, who process steel imports. This participation by AISI personnel and technical products experts from our member companies has had as its purpose improving the Customs Service employees' ability to properly classify imported steel products. Requests by the Customs Service for technical training of this type have substantially increased in the last few years and the AISI and its member companies have been pleased to participate in these seminars.

The AISI and its member companies have also been involved in other endeavors to assist the Customs Service in performing its functions. For example, during the last year, AISI member companies which have had plant closings have offered excess metallographic equipment to the Customs Service laboratory system. In addition, the AISI is in the process of establishing a customs fraud alert network which will provide customs fraud leads to the Customs Service's Steel Tripwire Program officials.

We are particularly concerned that the Customs Service is becoming increasingly incapable of performing its functions with regard to steel imports despite a highly motivated and exceptional workforce. While on the one hand, the number of inspectors, import specialists and laboratory personnel has declined sharply over the last few years, steel imports have increased substantially. Moreover, because of the increased number of unfair trade cases and subsequent antidumping and countervailing duty findings and other actions taken under U.S. trade laws, the work load of the Customs Service has increased substantially.

In its proposed FY 1986 budget, the Customs Service has stated that it would eliminate 206 inspectors, 244 import specialists, 50 laboratory technicians and 19 agents. These employees are all front line personnel who inspect and classify imports and build evidence against potentially fraudulent imports. We believe that these are precisely the areas that the Customs Service needs to "beef up."

We fully support the Customs Service's automation program. Port shopping, for example, would be greatly reduced as a problem if a fraudulent importer knew that a scheme—once detected at one port—could not be attempted at another port because the computer would have "notified" all ports of entry of the scheme and the name of the importer. Unfortunately, these computer systems are either still on the drawing boards, are incomplete or have not reached their potential, and many of the dedicated and highly trained Customs employees are gone.

Further, we take strong issue with the Customs Service on the question of staffing reductions, i.e. more computers and fewer people. It takes an import specialist to process a steel entry—not a computer. Computers are a tool, not a substitute for skilled people.

That customs fraud is a serious problem impacting on the U.S. steel market is evident by the Customs Service's etablishment of the Steel Tripwire Program in 1984 and the now increasing list of major trading companies and steel producers which have been successfully prosecuted. We understand that the Customs Service's Steel Tripwire Program has 75 significant customs fraud cases in process.

In hearings held last year by Congressman Dingell's Oversight Subcommittee, it was estimated by Customs import specialists who testified that 30 to 50 percent of all entry documents are in error in some way. While not all of these involve customs fraud, it is clear that attempts at evasion of U.S. duty—including fraud—are included in some substantial percentage of these errors. The import specialists testified that nearly all of the errors were in the importers' favor.

The shortage of key Customs Service employees—import specialists, dockside inspectors and laboratory personnel—has resulted in the Customs Service becoming unable to properly process import documents on a timely basis. The effective enforcement of U.S. trade laws becomes completely impossible as document processing lags by months the release of goods into U.S. commerce. If the staff problems already evidenced in the Customs Service continue, in the long run—and the long run is almost here—the Customs Service will become unable to enforce findings made under U.S. trade laws.

The President's Steel Program involving bilateral Arrangements is currently being established by the USTR. This program requires full and timely monitoring of imports by country of origin and by precise product identification. It is hard to imagine that this process can be successful if the Customs Service is unable to monitor imports in a prompt and accurate manner.

It is our understanding that the U.S. Customs Service presently examines less than 2 percent of all goods which enter the U.S. We believe that such a figure in no way is sufficient to deter customs fraud. In addition, we understand that no U.S. port of entry routinely checks the weight of steel imports. We hope that the Congress will ensure that the Customs Service hires sufficient numbers of inspectors to enable it to carry out its important responsibilities.

We believe that the Congress should increase substantially the U.S. Customs Service's budget for fiscal year 1986 in order that the trend of the last few years is reversed. Specifically, we believe that the Customs Service budget should include sufficient funds to fill the reported 500 vacancies which it had prior to the passage of the Trade and Tariff Act of 1984. In addition, import-sensitive product lines such as steel should have substantially more manpower attached to them in order that the Customs Service will be able to give more time to these critical imports.

Thank you very much for your attention. I will now answer any questions that you might have.

## STATEMENT OF WILLIAM J. PENDLETON, DIRECTOR OF CORPORATE AFFAIRS FOR CARPENTER TECHNOLOGY CORP. AND CHAIRMAN OF THE OPERATING COMMITTEE, SPECIALTY STEEL INDUSTRY OF THE UNITED STATES, CHAIRMAN OF THE STAINLESS STEEL WIRE INDUSTRY OF THE UNITED STATES, AND MEMBER OF THE SPECIALTY TUBING INDUSTRY GROUP, WASHINGTON, DC

Mr. Pendleton. Thank you, Mr. Chairman. My name is William J. Pendleton. I am with Carpenter Technology Corp. I am pleased to testify this morning on behalf of three specialty steel industry groups. I am chairman of the operating board of the Specialty Steel Industry of the United States and I am also chairman of the Stainless Wire Industry and a member of the Stainless Pipe and Tubing Industry group. These three industry groups represent virtually all the domestic manufacturers of stainless and alloyed tool steel products. I would like to summarize the key points that are contained in my written statement, in the interest of time.

No. 1, the specialty steel industry is a modern, competitive, and high technology sector of the U.S. steel industry and is essential to the economy and critical to the national defense.

Second, the industry has devoted substantial time and resources to its import problem, and these efforts have resulted in the establishment of a variety of import relief programs, including antidumping and countervailing duty orders, quantitative restrictions, higher tariffs, and voluntary restraint agreements. These programs cover a wide range of specialty steel products.

Third, the U.S. Customs Service does not currently possess the size of staff to effectively administer and enforce all of these programs. Further cuts, as contemplated in the administration's fiscal year 1986 budget, may seriously erode these programs as foreign producers exploit the absence of an effective enforcement mechanism.

Fourth, there is already increased evidence of efforts by foreign producers to circumvent these programs, either through shifting the product mix or product mix misclassification.

Fifth, while the industry has notified Customs of instances where circumvention of these programs has taken place, Customs has been unable to act on these complaints vigorously and completely due to manpower shortages.

Sixth, specialty steels are complex alloys, and the manpower problem is especially serious since skilled personnel are required at all major ports to analyze chemical composition and product form. Unfortunately, it is with respect to these skilled personnel that the administration is proposing some of its most substantial cuts.

Seventh, if the proposed cuts are implemented, the enforcement of these programs will be further weakened and it will signal to our trading partners that they can circumvent our import relief program with impunity. Our basic recommendation of these industry groups is very simple: Customs' budget and personnel for fiscal year 1986 should not be reduced. Thank you, Mr. Chairman.

Senator DANFORTH. Gentlemen, thank you all very much.

[Mr. Pendleton's prepared statement follows:]

# SUMMARY OF THE TESTIMONY OF WILLIAM J. PENDLETON, CARPENTER TECHNOLOGY CORPORATION, BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE, SENATE COMMITTEE ON FINANCE

William J. Pendleton is Director of Corporate Affairs for Carpenter Technology Corporation. He is testifying on behalf of the Specialty Steel Industry of the United States, of which he is Chairman of the Operating Board, the Stainless Steel Wire Industry of the United States, of which he is also Chairman, and the Specialty Tubing Industry Group. His testimony will address the role of the U.S. Customs Service in the administration and enforcement of the specialty steel import relief programs.

- The specialty steel industry is a modern, competitive and high-technology sector of the U.S. steel industry and is essential to the economy and critical to the national defense.

- The industry has devoted substantial time and resources to its import problem, and these efforts have resulted in the establishment of a variety of import relief programs including antidumping and countervailing duty orders, quantitative restrictions, higher tariffs and voluntary restraint agreements. These programs cover a wide range of specialty steel products.

- The U.S. Customs Service does not currently possess the size of staff to effectively administrater and enforce all of these programs. Further cuts, as contemplated in the Administration's FY 1986 budget, may seriously erode these programs as foreign producers exploit the absence of an effective enforcement mechanism.

- There is already increased evidence of efforts by foreign producers to circumvent these programs either through shifting the product mix away from products covered by the import relief programs; by classifying certain finished products as semi-finished; or by misclassifying imports into tariff categories that are exempted from the import relief programs.

- While the industry has notified Customs of instances where circumvention of these programs has taken place, Customs has been unable to act on these complaints vigorously and completely due to manpower shortages.

- Specialty steels are complex alloys and therefore the manpower problem at Customs is especially serious since skilled personnel are required at all major ports to analyze chemical composition and product form. Unfortunately, it is with respect to these skilled personnel that the Administration is proposing some of its most substantial cuts.

- If the proposed cuts are implemented, the enforcement of these programs will be further weakened and it will signal to our trading partners that they can circumvent our import relief programs with impunity.

## TESTIMONY OF MR. WILLIAM J. PENDLETON, CARPENTER TECHNOLOGY CORPORATION

Mr. Chairman and Members of the Subcommittee: My name is William J. Pendleton. I am with Carpenter Technology Corporation and am pleased to testify this morning as Chairman of the Operating Board of the Specialty Steel Industry of the United States. I am also Chairman of the Stainless Steel Wire Industry of the United States and a member of the Specialty Tubing Industry Group. These three industry groups represent virtually all domestic manufacturers of stainless and alloy tool steel products. The names and locations of the firms represented by these groups are contained in Exhibit 1 to my written testimony.

You are, of course, familiar with the basic fact that the specialty steel industry is a modern, cost-competitive and high-technology sector of the U.S. steel industry. Our products are essential to America's highly industrialized economy and are critical to the national defense. Examples of some of the industries that are dependent on specialty steels include areospace and aircraft, electronics, food processing, transportation, marine equipment, petroleum, electric power and chemical processing. Tool and high-speed steels are the tools which make everything else in our industrialized economy.

I am here today to discuss the role of the U.S. Customs Service in the administration and enforcement of the various import relief programs currently affecting the U.S. specialty steel industry. This Subcommittee is painfully aware of the substantial time and resources this industry has devoted in recent years to the problem of specialty steel imports. This Committee is also aware of the various import relief measures that have been implemented by the U.S. Government to deal with this problem. These programs include:

(1) Various antidumping and countervailing duty orders on tool steel and stainless steel imports from the United Kingdom, Brazil, Spain, the Federal Republic of Germany and France.

(2) Quantitative restraints on stainless steel bar, stainless steel rod, and alloy tool steel, as well as various Orderly Marketing Agreements allocating those restraints.

(3) Increased tariffs on the flat-rolled products, stainless steel sheet, strip and plate; and most recently

(4) Voluntary Restraint Agreements under the President's steel import relief program that cover stainless steel wire, stainless steel flat-rolled products, stainless pipe and tubing products and electrical steels.

A common element in each of these programs is that the responsibility for their administration and if need be, their ultimate enforcement, lies with the United States Customs Service. Notwithstanding this responsibility, it is our experience that the U.S. Customs Service does not currently possess the size of staff to effectively administer and enforce all of these programs. Accordingly, if the proposed cuts in

Customs personnel contained in the Administration's FY 1986 budget are put into effect, the existing import relief programs may become seriously eroded since foreign producers will undoubtedly try to exploit the absence of an effective enforcement mechanism.

There is already increasing evidence that significant efforts have been made to circumvent the import relief programs established for the benefit of the domestic specialty steel industry. This evidence has been especially pronounced with respect to the quantitative restraints and increased tariffs established in July 1983 pursuant to the President's import relief program for specialty steel under section 201 of the Trade Act of 1974. For example, recent import data reveal a disturbing shift in import product mix away from the various tool steel products covered by the President's import relief program towards high speed tool steel products that are not a part of the President's program. Whether or not an actual shift has occurred or whether there has been misclassification remains an open question. In any event, it is a question which should be investigated.

Industry sales representatives have also learned, as a result of conversations with their customers, of specific instances where stainless and tool steel products covered by the President's import relief program have been improperly entered into U.S. commerce under tariff classifications for products which are exempted from the program. Such instances include the entry of certain finished stainless steel products as semi-finished items not covered by the quantitative restrictions, and the entry of certain grades of tool steel under alloy steel product classifications that have been specifically exempted from the President's program at the request of foreign producers.

We have repeatedly notified the Customs Service of instances where we believe circumvention of the President's import relief programs have occurred. While we have found the staff receptive to our complaints, they are simply too overworked and understaffed to conduct the vigorous port-by-port oversight that is necessary to investigate these allegations, and thereby to make these programs work completely. The problem is particularly acute with respect to specialty steel since the products in question are difficult to identify on the basis of random observation, and thus they are easily susceptible to misclassification.

The products comprising the specialty steel industry include hundreds of different alloys. My own company, Carpenter Technology, produces about 450 grades of specialty steel alone. It requires skilled import specialists and laboratory personnel at all major ports to evaluate--through the use of a sophisticated metal analyzer--an entry of a specialty steel product to determine first, its chemical composition; and second, its product form, in order to ascertain whether it was properly classified. It is therefore unfortunate that it is with respect to these skilled personnel that the Administration is recommending some of its most substantial cuts.

The official position of the Administration is that the U.S. Customs Service can "do more with less." We are at loss to understand the logic of this position. The U.S. Customs Service, under current personnel levels, has been unable to vigorously enforce the President's import relief programs. Further reductions in those personnel levels will further weaken those programs and will signal to our trading partners that they can circumvent these and other import relief programs with virtual impunity.

In closing, let me ask this Subcommittee to carefully consider the illogic of cutting back on the effectiveness of one of the few revenue generating agencies of the U.S. Government, particularly at a time when the burden imposed on that agency to protect the U.S. market from commercial fraud and other injurious trade practices has never been greater.

I thank you for the opportunity to present our views on this important subject.

EXHIBIT 1

## SPECIALTY STEEL INDUSTRY OF THE UNITED STATES

Allegheny Ludlum Steel Corporation
2000 Oliver Building
Pittsburgh, Pennsylvania 15222

AL Tech Specialty Steel Corporation
Post Office Box 152
Dunkirk, New York 14048

Armco Inc.
Post Office Box 1697
Baltimore, Maryland 21203

Braeburn Alloy Steel Division
CCX, Inc.
Lower Burrell, Pennsylvania 15301

Carpenter Technology Corporation
Post Office Box 662
Reading, Pennsylvania 19603

Columbia Tool Steel Company
Lincoln Highway & State Street
Chicago Heights, Illinois 60411

Coshocton Stainless Steel
Post Office Box 548
Coshocton, Ohio 43812

Crucible Specialty Metals Division
Colt Industries Inc.
Post Office Box 977
Syracuse, New York 13201

Cytemp Specialty Steel Division
Post Office Box 606
Titusville, Pennsylvania 16354

Cyclops Corporation
Cyclops Building
650 Washington Road
Pittsburgh, Pennsylvania 15228

Jessop Steel Company
Jessop Place
Washington, Pennsylvania 15301

Latrobe Steel Company
Latrobe, Pennsylvania 15650

LTV Steel Company
1600 West Carson Street
Pittsburgh, Pennsylvania 15263

Slater Steel Corporation
Post Office Box 630
Fort Wayne, Indiana 46801

Teledyne Vasco
Post Office Box 151
Latrove, Pennsylvania 15650

Washington Steel Corporation
Washington, Pennsylvania 15301

## STAINLESS STEEL WIRE INDUSTRY OF THE UNITED STATES

AL Tech Specialty Steel Corporation
Post Office Box 152
Dunkirk, New York 14048

Armco, Inc.
Post Office Box 1697
Baltimore, Maryland 21203

Branford Wire & Manufacturing Company
Post Office Box 5933
Asheville, North Carolina 28815

Brookfield Wire Company, Inc.
Post Office Box 248
Brookfield, Massachusetts 01506

Carpenter Technology Corporation
Post Office Box 662
Reading, Pennsylvania 19603

Crucible Specialty Metals Division
Colt Industries, Inc.
Post Office Box 997
Syracuse, New York 13201

Industrial Alloys, Inc.
Post Office Box 1710
Pomona, California 91769-1710

Mapes Piano String Company
Post Office Box 112
Elizabethton, Tennessee 37643

National Standard Company
601 North 8th Street
Niles, Missouri 49120

Northampton Manufacturing Company
122 Federal Street
Northampton, Massachusetts 01060

## SPECIALTY TUBING INDUSTRY GROUP

Allegheny Ludlum Steel Corporation
2000 Oliver Building
Pittsburgh, Pennsylvania 15222

AL Tech Specialty Steel Corporation
Post Office Box 91
Watervliet, New York 12180

Armco Inc.
Route 2, Box 1A
Wildwood, Florida 32785

Bristol Metals Inc.
Post Office Box 1589
Bristol, Tennessee 37621

Carpenter Technology Corporation
Post Office Box 662
Reading, Pennsylvania 19603

Colt Industries, Inc.
2188 Church Street
East Troy, Wisconsin 53120

Cyclops Corporation
650 Washington Road
Pittsburgh, Pennsylvania 15228

Damascus Tubular Products
175 Reynolds Industrial Park Road
Greenville, Pennsylvania 16125

LTV Steel Company
226 E. 131st Street
Cleveland, Ohio 44108

Senator **Danforth**. Just let me ask you one general question. The reimbursement concept—is that worth pursuing, do you think? Should we look at that and maybe use that method as a supplement for the Customs Service authorization?

Mr. **Mulloney**. Mr. Chairman, let me comment for the iron and steel industry. I don't know at this point. We have considered that and we will consider that.

[The following letter was subsequently submitted for the record.]

American Iron & Steel Institute,
*Washington, DC, April 26, 1985.*

Hon. Bob Packwood,
*Chairman, U.S. Senate Committee on Finance, Senate Russell Office Building, Washington, DC*

Dear Senator: During my testimony on April 3, 1985, before the Subcommittee on International Trade on the Customs Service's FY 1986 budget, Senator Danforth asked me whether the "reimbursement concept" should be used as a method of supplementing the Customs Service's budget authorization. We understand the reimbursement concept is a suggestion that the states or local governments pay for Customs Service offices in ports of entry which the Customs Service has determined should be closed. During the question and answer session I indicated that the steel industry would consider that approach and would report back to the Subcommittee. The following are our thoughts and observations on this suggestion.

(i) As you know, we believe that the Customs Service should increase its efficiency and revenue to the government by beefing up its staff at ports of entry by hiring more inspectors, agents, and import specialists.

(ii) The Customs Service suggestion to move toward a "reimbursement" concept for small ports of entry is troublesome to us because we believe that implicit in this suggestion is a policy which would result in the closing of a substantial number of ports of entry currently in operation. We think that many of these ports of entry—if not all—should be kept open because they facilitate movement of goods into and out of U.S. commerce, create jobs, and generally support the U.S. industrial base.

(iii) We are deeply troubled with the Customs Service's suggestion that the states either financially or with state employees run federal Customs offices. We believe that Customs and all work related to Customs is a federal responsibility. The reimbursement concept puzzles us because it seems that such a system would result in a dual Customs Service—i.e., federally run Customs Service offices and state and locally run Customs Service offices.

To take this point to the extreme, it is possible under a reimbursement concept that an individual exporter or importer could petition state or local government to locate a Customs office near his facility. This Customs facility would then have as its sole purpose the facilitation of the import or export trade of this company. Obviously, such a scenario could result in potential conflicts of interest because the "Customs employee" would be more an employee of the importer/exporter than of the federal government.

(iv) Generically we believe that it is the responsibility of the U.S. Customs Service, as an agent of the federal government to police U.S. borders and facilitate import and export trade.

While we would not reject categorically the reimbursement concept as discussed during the hearing on April 3, we see few merits to the proposal at this time. As noted above, we believe the solution to the problem is the proper funding and staffing of Customs offices presently in existence—and the opening of new offices financed and run by the federal government when and where appropriate.

Sincerely,

Peter B. Mulloney,
*Chairman, AISI Committee on International Trade.*

Mr. **Tobias**. I think that the point that Senator Baucus made is maybe relevant, and that is to distinguish between the places where we already have inspectors and those places that want new inspectors and may or may not be cost efficient. But the concept of reimbursement does not address the core issue and the core problem, and that is we need more people at the larger ports of entry, more people on the border. We need more import specialists. So, I think that that is sort of a peripheral issue and not the main issue.

Senator **Danforth**. That is why they say they are not asking for a large increase in manpower, I am sure—the budgetary constraints. It is well known that we have budget problems, and I am sure that thought permeates the administration. On the other hand, the administration has generally supported the idea of user fees. So, I guess the thought is that if they are not going to get just a blank check on their authorization or their appropriation or the amount of manpower they can have, would it be a good idea to explore user fees or the reimbursement concept as a way of supplementing that.

Mr. **Pendleton**. Mr. Chairman, I think the idea has some merit, but I think the fundamental point that we are stressing here is that in the basic industries, in view of all the effort that has been made to put import relief programs in place, to reduce the personnel level by over 800 people, particularly the import specialists who are very familiar with the details and the intricacies of very complex commodities, it is pennywise and pound foolish. And it is just fundamental that we have to return the fiscal year 1986 budget to the level which would permit the personnel level of last year—and that is still undersized. Now, if they want to go on then beyond that in terms of a reimbursement program, that is fine to consider, but I think the fundamental point that we have to stress here is the need to return to the proper manpower level.

Senator **Danforth**. You want the people, regardless of how you get them?

Mr. **Pendleton**. Absolutely. It is essential.

Mr. **Mulloney**. Mr. Chairman, I would subscribe to that totally, and I think the point that was made by you and others earlier that this is a service that returns far greater revenues than it expends. It is vital to the whole issue. It just seems to be philosophically wrong to be doing what is being done. We also feel very strongly that if we return to a proper level of staffing, that that 20 to 1 ratio could go considerably higher, considering what we believe today is an increasing amount of fraud.

Senator **Danforth**. Gentlemen, thank you all very much.

Mr. **Tobias**. Thank you.

Mr. **Mulloney**. Thank you, Senator.

[Whereupon, at 12:38 p.m., the hearing was adjourned.]

[The following communications were submitted and made a part of the hearing record:]

## QUESTION FROM SENATOR HEINZ FOR THE INTERNATIONAL TRADE COMMISSION

Do you believe it is either appropriate or consistent with the law and Congressional intent for the Commission to establish a specific import penetration ratio, below which injury would not be found?

Response

The majority of the sitting Commissioners have not, in decided title VII cases relating to "material injury" determinations, established a specific import penetration ratio, below which material injury could not be found.

The antidumping and countervailing duty statute directs the Commission, in its determinations of material injury by reason of dumped or subsidized imports, to consider a number of economic factors bearing on the state of a U.S. industry. Congress has specifically directed the Commission to consider the level of import penetration, as well as changes in that level, in its determinations. The statute, in defining material injury, also lists many other factors that the Commission should consider and directs the Commission to consider any other factors, not specifically listed, if deemed relevant by the Commission. 19 U.S.C. § 1677(C), (D). Further, subsection (E) (ii) provides that "[t]he presence or absence of any factor which the Commission is required to evaluate under subparagraph (C) or (D) shall not necessarily give decisive guidance with respect to the determination by the Commission of material injury." 19 U.S.C. § 1677(E)(ii).

In its material injury determinations the Commission has relied upon and cited to the House and Senate Reports accompanying the Trade Agreements Act of 1979. The Commission, in recent investigations, has cited to legislative history directing it to consider all relevant factors in its determinations of material injury, while not allowing the "presence or absence of any factor" to "necessarily give decisive guidance." E.g., Certain Carbon Steel Products from Spain, Inv. Nos. 701-TA-155, 157-160, 162 (Final) USITC Publication 1331; Certain Automated Fare Collection Equipment and Parts Thereof from France, Inv. No. 701-TA-200 (Preliminary) USITC Publication 1323; Fish, Fresh, Chilled, or Frozen, whether or not whole, but otherwise prepared or preserved, from Canada, Inv. No. 701-TA-40 (Final) USITC Publication 1066; Sodium Hydroxide, In Solution (liquid caustic soda), from the Federal Republic of Germany, France, Italy, and the United Kingdom, Inv. No. 731-TA-8-11 (Preliminary) USITC Publication 1040. Moreover, the Commission has focused, in each particular investigation, on the conditions of trade, competition, and development regarding the industry concerned. Thus "[f]or one industry, an apparently small volume of imports may have a significant impact on the market; for another, the same volume might not be significant." Certain Hot-Rolled Carbon Steel Plate from the Republic of Korea, Inv. No. 731-TA-151 (Final) USITC Publication 1561; Birch Three-Ply Door Skins from Japan, Inv. No. 751-TA-6, USITC Publication 1271; Spun Acrylic Yarn from Japan and Italy, Inv. No. 731-TA-1-2 (Final) USITC Publication 1046.

The Commission has not held that there is a specific level of market penetration, below which material injury could not be found for all investigations of all industries. Rather, the Commission has made its determinations on a case-by-case basis after a thorough consideration of factors affecting the performance of the particular industry that seeks relief. The Commission determines "the significance to be assigned to a particular factor" after a consideration of the various factors affecting an industry in a particular case. E.g., Certain Carbon Steel Products from Austria, Czechoslovkia, East Germany, Hungary, Norway, Poland, Romania, Sweden and Venezuela, Inv. Nos. 701-TA-225-234 (Preliminary) USITC Publication 1642; Cellular Mobile Telephones and Subassemblies Thereof from Japan, Inv. No. 731-TA-207 (Preliminary) USITC Publication 1629; Cell-Site Transceivers and Subassemblies Thereof from Japan, Inv. No. 731-TA-163 (Final) USITC Publication 1618; Certain Commuter Airplanes from Brazil, Inv. No. 701-TA-188 (Preliminary) USITC Publication 1291; Certain Amplifier Assemblies and Parts Thereof from Japan, Inv. No. 731-TA-48 (Final) USITC Publication 1266; Welded Carbon Steel Pipes and Tubes from Brazil, France, Italy, The Republic of Korea, and West Germany, Inv. No. 701-TA-165-169 (Preliminary) USITC Publication 1262; Frozen French Fried Potatoes from Canada, Inv. No. 731-TA-93 (Preliminary) USITC Publication 1259; Chlorine from Canada, Inv. No. 731-TA-90 (Preliminary) USITC Publication 1249. Therefore, in particular cases, the Commission has determined, based on all the factors considered, that the level of market penetration was so low that imports were not a cause of material injury, notwithstanding the presence of other factors supportive of an injury determination.

# STATEMENT OF PAULA STERN, CHAIRWOMAN
# UNITED STATES INTERNATIONAL TRADE COMMISSION
# BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE,
# COMMITTEE ON FINANCE, U.S. SENATE, APRIL 3, 1985

Mr. Chairman and members of the Subcommittee, thank you for inviting me to present the Commission's budget request for fiscal year 1986. Accompanying me today are Commissioners Eckes, Lodwick and Rohr, and Rick Arnold, Director of Finance and Budget.

GNP statistics revealed that 1984 was the most robust year for economic growth in the United States in over three decades. This report confirmed the view held by many that the economy is coasting into the third year of recovery.

Unfortunately, there has been no recovery at the ITC, or in the industries with which we deal. In 1984 the U.S. chalked up a trade deficit of $123.3 billion, the largest in history. This was the third consecutive year in which a record trade deficit was set. The 1984 current account, a broad measure of our financial and trade relationships with the world, posted a deficit of $101.6 billion. This was more than double the 1983 deficit of $41.6 billion. Because the work at the Commission closely parallels the activity in the international arena, we have been busier than ever.

The budget request approved by the Commission totals $28,901,000 and 482 full-time permanent positions. This represents an increase of $3,522,000 over our fiscal year 1985 appropriation, assuming that we receive a supplemental appropriation for the January 1985 cost-of-living pay increase. This is essentially a request to fund operations at the same level as authorized for FY 1985. This amount is necessary to fund fully our authorized positions during FY 1986. There are no program increases to be funded by this request. This contrasts with the Commerce Department, which shares our workload in inforcing our antidumping and countervailing duty laws. It has responded to the same increasing trade pressures by requesting 37 additional positions for its International Trade Administration.

Let me briefly explain the reasons for the increase over FY 1985. Over one-half of the increase, or $1.8 million, is devoted to paying salaries to an increasingly professional staff. One-third, or $1.2 million, pays for various non-personnel costs, such as equipment rental, printing and other services, and supplies and materials. The remainder of the increase, or $500,000 is due to several other factors, including the increased rental for our current space and annualization of the costs of the positions authorized by Congress for FY 1985.

Mr. Chairman, I believe this amount represents the bare minimum necessary to meet our obligations for what we expect will be an extremely busy year. I should stress that most of our workload — the number of investigations -- is beyond our control; we are usually responding to statutory requirements. Furthermore, much of our workload is subject to tight statutory deadlines.

I would like to take a few moments to review the increasing demands on our resources. Of course, the part of our workload receiving the greatest attention is the decisions we make in import relief cases. We face an avalanche of requests for import relief. In FY 1984, we instituted 42 more cases than in the prior year, an increase of 26%. In the first quarter of FY 1985, we instituted 17 more cases than in the corresponding period in FY 1984, an additional increase of 32%. Indeed, our caseload so far this year is exceeding the projections on which our budget request was based.

Our caseload has been growing not just in size but also in the diversity and complexity of the cases brought before us. The antidumping and countervailing duty statutes continue to be our most active areas. During FY 1984 the Commission had 151 active cases in this area. Although steel and other manufactured products are the most frequent subjects of these investigations, cases involving other industries, such as agriculture, chemicals and high tech products are on the rise, reflecting the increased import sensitivity of the U.S. economy across-the-board. Also, post-decision litigation on these cases continued to increase as more of our decisions undergo judicial review. This substantually increases the workload of our legal staff which must defend the Commission in these actions.

A rapidly growing part of our caseload involves unfair trade practice cases filed under section 337 of the Tariff Act of 1930. The protection of U.S. intellectual property rights has been given a high priority, as evidenced by several provisions in the Trade and Tariff Act of 1984. The Commission worked on 74 unfair trade practice cases in FY 1984, a 25% increase over the prior year. We are increasingly drawn into complex issues in these cases. For example, during FY 1984 six cases were declared "more complicated" and extended to 18 months as compared to 5 cases being extended during the prior eight years.

Many of our most celebrated cases are filed under section 201, also known as the "escape clause". As you may know, 1984 was a big year for us in section 201, as we completed five escape clause cases. Although conventional wisdom holds that these cases are reserved for election years, we already have two section 201 cases before us this year, and expect a continued high level of interest.

We see little prospect that the forces that are producing so many requests for import relief will be reversed any time in the near future. Part of the surge in our caseload can be traced to the strong dollar, which although recently experiencing declines in its value, will continue to influence future trade transactions.

The steep appreciation of the dollar in the last four years has priced goods out of foreign markets and has drawn foreign products into markets. All types of industries and agricultural programs that previo faced little or no serious threats from foreign competition suddenly themselves turning to us for relief.

Underlying the high value of the dollar are fundamental shifts in comparative advantage of many U.S. manufacturers. Firms in n industrializing countries, particularly in Asia, are posing new challenge many established, basic industries in the U.S. Thus, many indicators poin further increases in our caseload.

I would like to make several points about our caseload forecasts. First, recent history has taught us anything it is that we have consiste underestimated the demands placed on our resources. Already, our 1st qua FY 1985 estimates have proven to be understated substantially. Second, projections were made before the Trade and Tariff Act of 1984 was enacted any increases resulting from this legislation were not included in projections. As an example of this, the Trade and Tariff Act of 1984 requires the President to conduct an extensive review of the Generalized System of Preferences (GSP) by January 1987. As part of this review the Commission will be required to conduct an investigation with respect to all articles in GSP. This will be the largest and most detailed "probable economic effe type of investigation the Commission has conducted since 1975 when such ad was prepared for the Multilateral Trade Negotiations. Also, assistance providing advice in negotiations will increase significantly if the m trading nations decide to embark on the new round of trade negotiations ca for by the President in his State of the Union address. The Europ Community has already formally endorsed such negotiations.

Of course, our work consists of more than just import relief investigations. Another important responsibility we have is to prepare fact-finding reports and analyses for use by Congress and the President in the development of U.S. trade policy. Much of this work is conducted under section 332 of the Tariff Act of 1930. Studies under section 332 are usually requested by our oversight committees or by the President. In addition we try to anticipate the needs of trade policymakers by self-initiating 332 studies; for example, we have underway an assessment of the U.S. commuter and business aircraft industries. Due to the current work being performed on a self-initiated study of the Internationalization of the Automobile Industry and Its Effects on the U.S. Automobile Industry, the Commission had the basis for a quick and meaningful response to congressional inquiries on voluntary restraint agreements. Because our research is so closely tied to the policy process, we view this as one of our most important functions.

[illegible] are increasingly involved in preparing background studies on sensitive and [illegible]troversial issues. For example, at the request of the Ways and Means Committee, we recently completed a three-phase study on foreign industrial targeting which has been used by U.S. negotiators in trade talks with Japan, and we have underway a study on the effects of certain foreign natural resources pricing policies on U.S. industries. We have also conducted studies on convict labor imports to the U.S., world agricultural trade flows, foreign trade zones, and product counterfeiting by foreign producers. During FY 1984 the Commission had 48 active studies. Through the 1st quarter of FY 1985 the Commission instituted nine new studies, compared to four last year. Seven of the new studies are direct requests of the President or the Committees on Ways and Means and Finance.

Section 332 also keeps us very involved in studying emerging issues and industries. As the service sector assumes a higher profile in trade debates, we expect more requests like the one we recently received from the U.S. Trade Representative's Office, in which we were asked to study competition between the air cargo and surface transportation industries in Japan and the U.S. This report will be used to assist the U.S. in current negotiations with the Japanese on this subject. Also, we have self-initiated a study on current developments in barter and countertrade. A number of emerging industries have been the subject of recent studies, including the biotechnology, robotics and telecommunications industries. The Commission is often called upon to provide assessments of the probable economic effects of possible trade agreements. For example, last year we studied the U.S.-Israeli free trade proposal and the proposed duty elimination of semiconductor tariffs, and we have recently completed an investigation on the probable economic effects of sectoral free trade with Canada. In addition, the Multifiber Arrangement, which governs world textile and apparel trade, expires in 1986. We have two studies underway, one on emerging textile-exporting countries and one on the MFA itself, which also should be useful in consideration of what to do in 1986. Parenthetically, this deadline could possibly generate more textile cases at the Commission.

Many of the section 332 studies focus on the competitive conditions of a specific industry that may need help in devising a strategy to meet foreign competition. Recently completed studies have covered industries that produce fabricated structural steel, household furniture, industrial molds, sheet vinyl flooring, filberts, and hand tools. Recent statements by Administration officials involved in the international trade arena cause me to believe that our resources in the 332 area, in data gathering responsibilities, and general technical support will be stretched to the limit by requests for assistance from other trade-related government agencies.

To round out a description of the full range of the ITC's activities requires mentioning the continuing role the Commission is playing in the conversion to the Harmonized System, and the listing of periodic reports on several commodities, including motor vehicles, footwear, steel, rum, and mushrooms. The ITC recently received a USTR request under 332 to monitor the performance of the steel industry as part of the Administration's program to limit steel imports. We will monitor and report annually on competitive conditions in the steel industry and the industry's efforts to adjust and modernize. Information on employment, profitability, capital investment, and other items would be collected on 21 different steel product categories. In addition, we provide our oversight committees numerous reports on proposed legislation to be used as background material for committee consideration of these bills. During FY 1984 we provided assistance on over 120 pieces of legislation.

Our independence, analytical expertise, and data-gathering ability will continue to attract requests for timely reports on current trade issues. This creates a continuing need to create and maintain expertise in new areas in order to keep up with developments in international trade. Congress also gave us a new function last year. In conformance with the Trade and Tariff Act of 1984, we recently established the Trade Remedy Assistance Center. This Center will provide one central location in the Federal government for obtaining information on the major trade remedy statutes. In addition it will provide technical assistance to those small businesses that would like to file cases at the ITC but cannot afford to do so. The workload implications of this function must still be measured.

Please note that the Commission's budget request includes no funds for the relocation of our activities to a single location in downtown Washington. Last year Congress passed and the President signed legislation that transfers our current building, where most of the staff works, to the Smithsonian Institution when a suitable location for us has been found.

Internally the Commission has taken several measures to prepare for our move, but little more can be done until a site is selected. I have been working with the General Services Administration to prepare an advertisement for our space needs. I expect the solicitation to take place this Spring, and hopefully a site can be selected this Summer. At the time the budget was prepared there was much uncertainty regarding our move, so a request for relocation funds would have been premature. Once a firmer schedule for our move has been set, the Commission will be in a better position to predict our costs. At that time, the Commission will likely come back to you with a request for additional funding.

I would like to conclude on a personal note. I have been a Commissioner for six and a half years. I have personally witnessed the impact of the Trade Act of 1974, the Trade Agreements Act of 1979 and the advent of the Trade and Tariff Act of 1984 on the ITC's operations as well as the enormous growth of our workload to its current crescendo. My position at the Commission has allowed me to observe first-hand the internationalization of the U.S. economy and to appreciate the heightened importance of our work. I credit the Commission's staff for maintaining, in the face of these changes, the high standards of quality and objectivity that Congress expects us to meet.

Few agencies are experiencing such disproportionate growth in responsibilities relative to their size. Our work increases when American industry and agriculture are feeling injured. In effect, we provide a safety net for American business when times are tough in trade, much as unemployment compensation helps tide over workers buffeted by economic vicissitudes. The current trade problems are exerting tremendous pressure on all of us but we are confident that, with the support of Congress, the Commission can meet the challenge.

In submitting the Commission's budget request for fiscal year 1986, I firmly believe we'll need every penny of it if we are to serve our objectives as defined by Congress.

Mr. Arnold and I will be pleased to answer any questions you may have.
Thank you.

BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman**
**Subcommittee On International Trade**
**Committee On Finance**
**United States Senate**

# U.S. Customs Service: Import Specialists' Duties And Reviews Of Entry Documentation

**The U.S. Customs Service import specialists are responsible for assessing duties on goods being imported into the United States and for enforcing import quotas and other merchandise restrictions.**

**At the request of the Subcommittee, GAO discusses (1) the import specialists' duties in processing entry documentation, (2) Customs' efforts to streamline the review process, (3) the number and types of errors found as a result of the import specialists' reviews, and (4) Customs' efforts to measure the quality of its entry processing function.**

**GAO/GGD-85-46**
**MARCH 29, 1985**

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-216217

The Honorable John C. Danforth
Chairman, Subcommittee on
International Trade
Committee on Finance
United States Senate

Dear Mr. Chairman:

Your letter of December 7, 1984, and prior correspondence noted several key questions facing your Subcommittee in its oversight of Customs Service operations. Essentially, the questions concerned whether Customs is deemphasizing its commercial operations of collecting import duties and permitting only admissible products to enter the country. The questions have arisen because the volume of imports has been increasing while the number of import specialists has remained about the same.

Import specialists play a major role in determining whether importers and/or their brokers have properly classified and valued imported products, correctly calculated duties owed, and provided all data and documents required to admit merchandise into the country. Classification of imported goods determines the tariff rate for duty assessment purposes and is the basis for enforcing quota and other merchandise restrictions. The classification process provides the means to accumulate statistics on imported products, such as dollar value, quantity, and country of origin.

The formal entry[1] workload has increased about 40 percent from fiscal year 1981 to fiscal year 1984--from 4.6 million entries to 6.4 million. In September 1984, Customs had 990 import specialists to process the workload or about 141 fewer than in September 1981.

Customs commercial operations and budget officials told us that, although there have been personnel reductions because of budget restraints, the agency has not been deemphasizing commercial operations but has been working to make the entry review process more efficient. Customs, since 1967, has been working on a system (referred to as the "bypass system") to reduce import specialists reviews of low-risk entries on the basis of criteria developed at each field location. Low-risk entries are those determined to be simple, routine, and not likely to violate import requirements. As of February 1985, Customs was developing criteria to be applied nationally, which would complement that developed at field locations. The national criteria will indicate those entry documents which must be reviewed. All other entries will be bypassed except those which import specialists at field locations determine to be in need of a review.

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[1] As used in this report a formal entry consists of Customs forms, commercial invoices, and other documents required for determining the admissibility of merchandise valued over $250. (As of December 1984, the value was increased to $1,000). Formal entries account for about 99 percent of the duties collected by Customs.

Having import specialists review selected entries does not necessarily indicate that Customs is deemphasizing the functions of collecting duty and assuring the admissibility of imports. How well those commercial operations functions are performed depends to a large extent on the implementation of a sound bypass system. However, until Customs fully develops and implements criteria for its bypass system, we cannot evaluate the effectiveness of the system.

To provide the Subcommittee with an overview of commercial operations, we arranged with your office to provide information on

--the import specialists' duties in processing entry documentation,

--Customs' efforts to streamline the import specialists' review process,

--the results of the import specialists' reviews from the standpoint of the number and types of errors found in the entry documentation, and

--Customs' efforts to measure the quality of the entry processing function.

Per discussion with your office, we conducted our review of import specialists activities at two of the largest Customs districts--the New York Seaport Area Office and the Los Angeles District. These two locations accounted for about 1.1 million, or 18 percent, of the total 6.5 million formal entries received by all 45 Customs districts and about $3.9 billion, or 31 percent, of the $12.5 billion total duty and tax assessments in fiscal year 1984. Further, about 20 percent of the import specialists who review entries are located at these two sites.

(See app. V for a more complete discussion of our scope and methodology.)

At the two locations selected, we found that most of the import documentation submitted to Customs was determined to be error free by import specialists. In fiscal year 1984, the New York Seaport and the Los Angeles District processed 501,313 and 652,612 entries, respectively. Import specialists reviewed about 90 percent of the entries and found errors in 7 and 4 percent of the entries reviewed at New York and Los Angeles, respectively.

For fiscal year 1983, the errors affecting duties and taxes resulted in $26 million in additional assessments to importers and $22 million in refunds to importers. The dollar impact of entry errors affecting duties for fiscal year 1984 was not available as of March 1985.

Customs' quality assurance program results showed that, nationwide, about 3 percent of the entries that had gone through the entry review process and had been liquidated (the final computation of an importer's liability) in fiscal year 1983 had errors. According to Customs officials, the program has yet to generate all the information necessary to adequately assess the entry review process. The officials told us, however, that Customs is expanding the program to provide more detailed information. Specifically, Customs recently began providing computed-generated management reports that show the types of errors, but not the percentage of entries with errors, found in quality assurance reviews by region and districts for fiscal year 1983. It plans to issue additional reports by 1986 that will further identify problem areas in the entry processing operations and assess the criteria used in bypassing entries.

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More detailed information on the results of our work is presented in the appendixes. We trust the information provided will be useful to your continuing oversight efforts. As requested by your office, we did not obtain agency comments on this report. However, we have discussed the information contained in this report with Customs officials who manage the entry review process. They agreed with the data.

As arranged with your office, unless you publicly announce the contents of the report earlier, we plan no further distribution until 10 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

W.J. Anderson

William J. Anderson
Director

## IMPORT SPECIALISTS' DUTIES

Import specialists are responsible for assessing the correct duty on imported articles and for determining their admissibility. They also

--determine whether special trade programs such as quotas, countervailing duties, and antidumping statutes apply to the imports;[1]

--verify statistical information on imports for use in monitoring foreign competition and negotiating trade agreements; and

--enforce certain legal and regulatory requirements of other agencies, such as those pertaining to trademark and patent rights.

Import specialists carry out these responsibilities mainly by reviewing importers/brokers' entry documents, such as invoices, contracts, and purchase orders. Import specialists rely heavily on their familiarity with and knowledge of the particular merchandise and the record of the importers. Import specialists also utilize an extensive body of legal principles, court decisions, and Customs rulings which have evolved over the years.

Verifying that the importers/brokers have assigned merchandise to its proper category in the Tariff Schedules of the United States Annotated is performed by the import specialists. The tariff schedules list the merchandise's dutiable status and duty rate, aid in enforcing quotas and other trade programs, and provide the means to accumulate trade statistics.

The Tariff Schedules of the United States (TSUS) list about 6,000 articles and products by specific name; type; kind; physical characteristics such as material composition, size, and weight; use; or a combination of the foregoing. The five-digit TSUS numbers are further subdivided by the addition of two-digit suffixes at which point the TSUS become the Tariff Schedules of the United States Annotated. There are more than 10,000 seven-digit item classifications which provide more specific product descriptions for compiling import statistics used by the Department of Commerce and the International Trade Commission for determining injury to domestic industry.

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[1] A countervailing duty is an additional duty assessed on imported merchandise determined to have been subsidized by a foreign government and to have materially injured or threatened with material injury a competing U.S. industry. Antidumping statutes provide for an additional duty to be imposed when imported merchandise is sold in the United States at prices lower than the prices at which comparable goods are sold in the country of origin and the sales cause or threaten material injury to a competing U.S. industry.

At the two locations we reviewed, the import specialists' review of import documentation was carried out in two phases. A pre-entry review was made prior to accepting the entry documents in order to ensure that all substantive entry requirements, including classification, value, rate of duty, and other entry requirements were complied with and all required documents were submitted. If the entry documents were not acceptable, they were held pending receipt of further information or returned to importers/brokers for correction. On some entries, the import specialists would also advise importers/brokers on the entry requirements and examine samples of merchandise before the entry documents are submitted.

Once entry documents were formally submitted by importers/brokers or the requested information was received and accepted by import specialists, the documents were subjected to a post-entry review. Entries found to have the correct documentation at any stage of the review process were liquidated, which means that a final computation of duty was made.

## CUSTOMS EFFORTS TO STREAMLINE

## ENTRY REVIEW PROCESS

Customs has, since 1967, sought to eliminate import specialists' reviews of routine, low-risk entries. Achieving this goal would allow the specialists to concentrate on entries requiring intensive reviews and provide a way of handling increasing workloads.

Customs' 1967 system established agencywide guidelines for eliminating some of the entries reviewed by import specialists. Under this system the import specialists were to identify the low-risk entries, and such entries were to be processed by clerical staff. The low-risk criteria was based on entries being free of duty or subject to a low amount of duty because of low rate, low value, or both. The criteria was also based on whether the merchandise was imported regularly and the accompanying entry documents were consistently error-free. According to a Customs headquarters report, this attempt at a bypass system was not successful because some import specialists were reluctant to place entries on the bypass list.

In 1974, Customs attempted to implement another bypass system. An automated system was envisioned to facilitate the selection of entries to bypass review. After 5 years of developing and testing, the effort was terminated because it produced large backlogs of unprocessed entries. The backlogs were attributed, in part, to the difficulty in developing and maintaining suitable bypass criteria, computer malfunctions, and the inability to hire and retain an adequate number of clerks to input entry information.

In June 1981, Customs instructed its regions to bypass 35 percent of their entries. The criteria for determining which entries could be bypassed were to be developed by import specialists at the field level. The specialists were allowed to make a cursory review of the bypassed entries. Two years after implementing this policy, all Customs regions were meeting the bypass rate.

In August 1983, Customs increased the bypass rate to 50 percent for all entries received in each district office (except the districts within the Northeast Region which were excluded from the directive). As in the June 1981 instructions, the import specialists were to develop the criteria for bypassing entries. This new policy, however, precluded the import specialists from making a cursory review of the bypassed entries. As of September 1984, Customs statistics showed that 23 of 35 districts (excluding districts in the Northeast Region and 1 district for which statistics were not available) met the 50-percent bypass rate. The New York Seaport Area Office and the Los Angeles District were not meeting this bypass rate.

In November 1984, the bypass policy was modified to permit import specialists to perform a cursory review of not more than one-half of the bypassed entries. A Customs official told us that the modification was made because of the lack of clerical staff to process bypass entries and because some entries can be processed more expediently with a brief import specialist review.

As of February 1985, Customs was developing criteria to be applied nationally for selecting entries to be reviewed. All other entries are to be bypassed except those which import specialists at field locations determine to be in need of review. According to Customs, national criteria would help ensure uniformity throughout Customs in selecting entry documents for review. A Customs official told us that the target date for having the criteria developed is July 1985.

## RESULTS OF IMPORT SPECIALIST

## REVIEW OF ENTRY DOCUMENTATION

Customs statistics for New York and Los Angeles indicate that the import documentation for most entries submitted to Customs was error-free. In fiscal year 1984:

--The New York Seaport processed 501,313 entries. Of these, 441,369, or about 88 percent, were reviewed by import specialists and about 7 percent of those reviewed contained errors.

--The Los Angeles District processed 652,612 entries. We were unable to determine the disposition of about 3 percent of the entries. For the remaining 631,024 entries, import specialists reviewed 574,942 , or about 90 percent, and found that about 4 percent contained errors.

Of $12.5 billion in duties collected by Customs in fiscal year 1984, $185 million, or about 1.5 percent of the total, was assessed as a result of post-entry review by import specialists. About $155 million was refunded to importers because they overestimated duties. Customs does not maintain information on the amounts of additional duty billings or refunds resulting from pre-entry review.

At the two locations we selected, about $3 billion in duties and taxes was assessed in fiscal year 1983. Of this total, about $26 million, or about 1 percent, was assessed as a result of post-entry review. About $22 million was refunded.

To determine the nature of the errors detected by import specialists in the entry documentation, we randomly sampled pre- and post-entry changes at each location we selected. We selected July 1984 as our test period for changes made during pre-entry review. To analyze errors detected in post-entry review we used the universe of entries changed in fiscal year 1983 which was the most recent fiscal year for which such data could be obtained. (See pp. 9 to 10).

Of the 90,187 entries given a pre-entry review in July 1984, at the locations we visited, an estimated 1,810 or about 2 percent, required a change. There were 2,186 changes of which 1,836 related to classification, value, or duty. The other 350 changes related to errors not involving classification, value, or duty. (See table on p. 10.) On the basis of our sample, we estimate that 77 percent of the changes relating to duty involved classification issues, 5 percent involved value determinations, and 18 percent involved other duty-related factors.

In fiscal year 1983 in the two locations we visited, 46,727 entries were found to contain an estimated 51,607 errors in post-entry review. (See table on p. 10.) We estimate that 55 percent of the changes involved classification issues, 15 percent involved value determinations, and 30 percent involved other duty related factors.

Classification changes occur when an import specialist places the article in a TSUS classification other than the one selected by the importer/broker because of factors such as the size, weight, composition, physical characteristics, or use of the article being imported. For example:

> A broker classified women's sweaters with ruffles as unornamented apparel. The import specialist considered the ruffles ornamentation and classified the sweaters as ornamented apparel. As a result, the duty increased from $1,850 to $2,065.

Valuation changes usually involve adjusting the value of the merchandise. Import specialists appraise imported merchandise using one of six methods. The transaction value method, according to Customs, is used for over 90 percent of all entries. Under this method, the transaction value of the merchandise is the price of the merchandise sold for exportation to the United States. Ascertaining the correct transaction value requires that the import specialist have knowledge of such factors as methods of payment, costs or charges relating to the transaction, the appropriateness of selling commissions and royalties, construction or assembly costs, and the relationship between the buyer and seller. The following is an example of an import specialist's adjustment to transaction value.

> For an entry of stainless steel hollow-handle knives, an import specialist added a charge for the master mold because it was used to construct the knives. As a result the duty was increased from $560 to $815.

Duty-related changes involving errors other than classification and value include adjustments to countervailing duty, erroneous exchange rates, clerical errors, or quantity or weight figure errors.

Errors not related to duty involve issues of admissibility, violations of legal or regulatory requirements, and violations of trade programs. These types of errors include those in which importers

--did not obtain or erroneously obtained a license or permit from another agency;

--failed to file the entry documents in the time required; and

--did not indicate the merchandise was subject to a quota.

## QUALITY ASSURANCE

To provide Customs management with information on the quality of entry processing operations on a nationwide basis, Customs implemented a quality assurance program in 1982. Program results indicate that over 95 percent of entries are being liquidated correctly. However, several regions have encountered problems in implementing the program, and some regional and district personnel have raised questions concerning the appropriateness of the quality measures employed.

Under this program, Customs selects a sample of liquidated entries quarterly in each region to determine whether the importers' entry errors were detected and corrected. The selected entries include those reviewed by import specialists and those which had bypassed the review.

The reviewing official evaluates the classification of the entry, its appraisement, the revenue collected, and whether the admissibility requirements were met, such as compliance with Customs and other agency laws and programs. The program results indicate to Customs that most regions' performance in processing entries has been of high quality.

The quality assurance program results for 1983 showed that 3.4 percent of the entries which had gone through the entry review process and had been liquidated had errors. Also, error rates for bypassed entries (3.5 percent) and import specialist reviewed entries (3.4 percent) were not significantly different. The overall error rates for the New York and Pacific Regions (which includes the New York Seaport Area Office and the Los Angeles District) were 3.5 and 7.4 percent, respectively.

Headquarters, regional, and district officials generally support the concept of quality assurance although they have pointed out problems with the program. This assessment was made when, in May 1984, the Assistant Commissioner for Commercial Operations solicited the views of regional commissioners, district managers, and supervisors on the effectiveness of the program and how it could be improved.

Eighteen of the 29 officials that commented on the accuracy of the quality assurance program stated that the reviews conducted up until that time accurately reflected the quality of entry processing operations. However, two officials said that error rates were artificially low because some import specialists did not provide adequate documentation or maintain complete files, thus precluding a thorough review of all entries. Two other officials said that the error rates were distorted because no differentiation is made between major and minor errors. In addition, four officials suggested that in order to give a more valid picture of entry processing quality, entries should be sampled by district rather than region because processing takes place at the district level.

Twenty-one of 24 district and regional officials who addressed the qualifications of reviewers in their comments stated that reviewers were capable of performing effective quality assurance reviews. However, half of the six regional commissioners responding stated that the number of reviewers in their regions was insufficient. Four regional commissioners suggested that not enough travel funds were available for reviewers to make all the onsite visits necessary to conduct complete reviews. Two regions did not complete all the reviews required, which according to Customs, was due at least in part to a lack of resources.

Headquarters has stated that regional and district concerns with the program are justified and steps are being taken to rectify the program's problems. Accordingly, Customs is encouraging import specialists to improve their entry processing documentation and has begun collecting entry samples by district. In addition, headquarters has emphasized to the regions that the quality assurance program is of sufficient priority to justify assigning the resources necessary to complete all reviews.

The quality assurance program in the past identified only the number of reviewed entries in each region that had errors, but it did not provide any information on the nature of these errors. However, Customs recently issued computer-generated management reports that show the type of errors, but not the percentage of entries in error, found in quality assurance reviews by region and district for fiscal year 1983. The agency plans to issue additional reports by 1986 that will indicate, among other things, the percentage of reviewed entries with errors in each district and the effect of review errors on revenue. These reports, according to Customs, will give it the ability to pinpoint problem areas in its entry processing operations.

## OBJECTIVES, SCOPE, AND METHODOLOGY

As arranged with your office, we gathered information on (1) the import specialists' duties in processing entry documentation, (2) Customs efforts to streamline the import specialists' review process, (3) the results of the import specialists' reviews from the standpoint of the number and types of errors found in the entry documentation, and (4) Customs' efforts to measure the quality of the entry processing function.

The information contained in this report was developed at Customs headquarters in Washington, D.C., at the New York and Pacific Regional offices, and two of Customs districts--New York Seaport Area Office and the Los Angeles District. Of the 45 district offices, these two offices were selected because they are two of the largest districts in Customs and handle a broad range of merchandise. In fiscal year 1984, the two districts received about 1.1 million, or 18 percent, of the 6.5 million total entries received by Customs. They accounted for about $3.9 billion of the $12.5 billion in total duties and taxes assessed by Customs in that year. Further, about 20 percent of all import specialists are located at these sites.

To gather information on the activities of import specialists in reviewing entry documents, we reviewed Customs policies and operating guidelines, Customs studies, and documents the specialists work with. We also interviewed import specialists as well as other Customs officials at headquarters, the New York and Pacific regions, the New York Seaport Area Office, and the Los Angeles District.

To provide information on Customs efforts to streamline the import specialists review process, we interviewed Customs' Duty Assessment officials and reviewed the selective entry processing systems Customs has implemented to address the increasing workload. We also analyzed the bypass reports submitted to Customs headquarters by its regions.

To identify the results of the import specialists reviews, we selected and analyzed a random sample of 1,313 changed entries with 1,509 changes in the New York Seaport Area Office and the Los Angeles District. Our work focused on formal entries which, in fiscal years 1983 and 1984, accounted for 99 percent of all Customs duties assessed.

Two samples were taken in each location--one for changes made in post-entry review and one for changes made in pre-entry review. The post-entry review sample was drawn at random from the universe of liquidated entries changed in fiscal year 1983.[1] At the time of our review, this was the most recent fiscal year for which a complete year's list of liquidated entries was available.

Because Customs does not maintain historical data on entries which are changed during pre-entry review, we selected entries at the completion of the pre-entry review process by working with the import specialists as they reviewed the entry documents and before they returned them to importers/brokers for correction. The sample was drawn at random from the universe of pre-entry review changes made during the month of July 1984. The table below shows the universes of changed entries in each district and the number of sample cases we reviewed.

Fiscal Year 1983 Post-entry Review Changed Entries

|  | Universe | Number of changes estimated in universe | Sample | Number of changes in sample |
|---|---|---|---|---|
| New York Seaport | 23,875 | 26,891 | 380 | 428 |
| Los Angeles District | 22,852 | 24,716 | 380 | 411 |
| Total | 46,727 | 51,607 | 760 | 839 |

July 1984 Pre-entry Review Changed Entries

|  | Estimated Universe | Number of changes estimated in universe | Sample | Number of changes in sample |
|---|---|---|---|---|
| New York Seaport | 878 | 1,116 | 277 | 353 |
| Los Angeles District | 932 | 1,070 | 276 | 317 |
| Total | 1,810 | 2,186 | 553 | 670 |

We are 95-percent confident that our sample findings are within 5 percentage points of what would have been found had we examined all pre-entry and post-entry cases in our universe.

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[1] The universe does not include entries liquidated in minor ports in the two districts (about 0.3 percent of total entries liquidated) or vessel repair entries, appraisement entries, and drawbacks (1.9 percent of total entries liquidated). We also eliminated from the universe entries which were presented to Customs prior to fiscal year 1979. Additionally, many of these cases were initially reviewed by import specialists who were no longer available for interview.

We interviewed headquarters officials involved in overseeing and conducting the quality assurance program. We also examined memorandums assessing the accuracy and usefulness of the program prepared by regional and district officials at the request of headquarters. In addition, we analyzed the results of the 1983 quality assurance reviews in the seven regions and reviewed Customs plans for future detailed management reports to be prepared from information obtained through quality assurance reviews.

Our work was conducted in accordance with generally accepted government auditing standards. We performed our audit work from January 1984 to January 1985.

(264060)

# JOINT STATEMENT
# OF
# C. A. SHEA AND COMPANY, INC. AND THE KEMPER GROUP
# REGARDING
# DEPARTMENT OF THE TREASURY
# U. S. CUSTOMS SERVICE
# APRIL 3, 1985
# SENATE FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE

***** ***** ***** ***** ***** ***** *****

This statement is submitted on behalf of C. A. Shea and Company, Inc., an insurance brokerage firm headquartered in New York City which specializes in writing U. S. Customs surety bonds countrywide, and the Kemper Group, a diversified financial organization which is a major underwriter of these surety instruments.

C. A. Shea and Kemper appreciate having this opportunity to set forth our views on the operations and management of the Customs Service. This statement is intended to be an extension of what we have viewed as a very constructive dialogue with the agency and the relevant Congressional committees with jurisdiction over Customs. While we have not been hesitant in the past to criticize the agency when we felt that its initiatives were either unjustified or unworkable, we have always done so in a civilized fashion and have the highest respect for the political appointees and senior civil servants charged with the responsibility for managing this agency.

In this statement we would like to comment on three different subject areas: 1) the agency's practice of entering into debt payment agreements with delinquent entities which are unfavorable to the government; 2) the agency's continuing desire to reduce or eliminate totally certain current surety bonding requirements; and 3) the agency's computerization efforts. We would like to conclude our statement by making some suggestions for a follow-up financial management study to be performed by the U. S. General Accounting Office.

## UNFAVORABLE DEBT PAYMENT AGREEMENTS

We have been distressed to note that in recent years the Customs Service has decided to enter the banking and surety bonding fields by serving as a lender to those individuals and corporations delinquent in meeting their obligations to the agency. The Customs Service has made it a practice in recent years to enter into payment agreements which adversely impact the U. S. taxpayer at times when a surety bond was in place which would have guaranteed full payment to the government in a timely fashion. By entering into such arrangements Customs has voided a three party agreement under which it could have received payment for amounts owed. One particular situation in which both Kemper and C. A. Shea were involved is illustrative of this type of agreement. In December of 1982 the Customs Service signed an agreement with LIBCO Incorporated ( a shoe importer licensed under the laws of the state of New Jersey) under which that corporation would pay Customs some $661,114.00 in twenty-four monthly payments at an interest of 7%. The amount owed the federal government in this situation was covered by surety bonds written by American Motorists Insurance Company, a Kemper Group subsidiary. For the Customs Service to pass up this surety bond coverage and opt instead for a schedule of delayed payments over a two year period at a rate of interest considerably below market rates strikes us as incredible. Attached to this statement is a photocopy of the payment agreements to which we refer. This is not an isolated situation. There are several other instances with which we are familiar in which the Customs Service has entered into similar agreements.

## ELIMINATION OF CURRENT BONDING REQUIREMENTS

We were pleased to note that in response to questions posed to the Customs Service by the House Ways and Means Trade Subcommittee the agency indicated that they had abandoned the idea of totally eliminating surety bonds. While this may be the case the agency seems intent on pursuing two of the six options outlined in its October 1983 advance notice of proposed rulemaking. In its response to the House Trade Subcommittee the agency indicated that it would like to eliminate current bonding requirements for importations up to a $2,500 threshold and to eliminate entirely the bonding requirement for certain importers and brokers with good credit records. These were two of the six options outlined in the October 1983 notice. Clearly the agency has not entirely abandoned their proposed agenda.

By proposing that the bonding requirement be eliminated for importations up to a value of $2,500 Customs would appear to be asserting that coverage of these amounts is unnecessary or can be provided efficiently by the agency. It is our view that neither of these assertions is accurate. As a major surety bond underwriter with considerable experience over the past decade we know that claim frequency on small amounts owed the government is much higher than with larger amounts. To contemplate that the government could provide these surety services as effectively as the private sector is in our judgment indefensible for the following reasons:

1) Customs lacks the financial accounting systems to monitor and track efficiently small amounts owed the government. This fact has been documented in studies done by the U. S. General Accounting Office and in responses provided by the agency to inquiries filed by Kemper and C. A. Shea under the Freedom of Information Act.
2) Customs lacks the enforcement powers needed to pursue persons delinquent with respect to amounts owed the federal government.
3) Customs lacks the manpower to pursue individuals delinquent with respect to government obligations.
4) If Customs intends to refer small amounts owed the government to the Justice Department for collection, there will have to be a significant increase in the manpower of that department or there will be absolutely no incentive for individuals owing small amounts to the government to meet their obligations. It should be noted in this regard that current Justice Department regulations preclude that agency from pursuing individuals who owe the government less than $600.

It strikes us as unwise to increase the value of importations not covered by a surety bond from $1,000 to $2,500 until such time as the agency can demonstrate factually that it is adequately dealing with claims and protecting the revenue better than was the case when private bonds were in force.

The second part of the agency's current agenda is to eliminate entirely the bonding requirement for certain importers and brokers based upon an assessment of their credit, performance, etcetera. This part of its plan strikes us as frightening. As a study performed by the U. S. General Accounting Office released in 1975 demonstrated, government agencies generally lack experience in performing surety type services. We cannot understand why the agency would want to undertake to provide such services when they are currently provided to the government at no risk by the private sector.

We doubt that the agency will have in its possession the type of information necessary to accurately assess an individual's or company's credit worthiness. Certainly its own records are insufficient to provide this information as was demonstrated by the agency's responses to inquiries filed by our organizations under the Freedom of Information Act. In 1983 we sought from the agency under the FOIA lists of all accounts receivable not covered by a surety bond in the past five fiscal years as well as lists of all accounts receivable where no legal collection action has been taken within the past two years. The response to this inquiry from Customs was clear and unequivocal: The Customs Service does not maintain lists in the formats or breakdowns requested. Thus, the Customs Service does not have the accounting management information to document its contention that it can succeed on its own in collecting amounts due the government. Further, it has no idea what its own track record has been in collecting debts to the government not guaranteed by a surety. In short, Customs has no idea where it stands in managing accounts receivable for which there is no surety protection.

Some final comments seem appropriate with respect to the problems which the Customs Service has indicated exist with respect to collecting amounts due from certain surety companies. It appears clear to us that if the Customs Service currently is experiencing difficulty in collecting amounts due from the handful of surety companies active in this market, its collection problems would be magnified enormously if it ultimately intends to pursue delinquent individuals and corporations independently.

## COMPUTERIZATION

It is difficult to criticize the Customs Service for its efforts in recent years to fully computerize its operations. We do, however, have two observations to make with respect to these efforts which we feel are pertinent.

First, the agency should not implement new computerized systems until it has more thoroughly tested such systems. Time and again we have seen the agency implement a new computerized data system without adequate testing. Such premature system activations have only served to further complicate operations for those of us in the private sector.

Second, we seriously doubt that there will be any meaningful improvement in agency operations until a more comprehensive financial management control system is implemented. Computerization itself is not the answer!

As this subcommittee is no doubt aware, the U. S. General Accounting Office in May of last year released a report entitled Internal Control Weaknesses at the U. S. Customs Service. This report documents the recent history of weak internal accounting and audit controls which give rise to our belief that the agency is ill prepared to accept the responsibility for tracking and collecting amounts due the government. Two of GAO's principal findings were:

-- Collection controls needed improvement at most locations. Collections were not properly logged, correctly accounted for or adequately safeguarded; duties of employees handling collections were not adequately divided, and in a few instances, collections were not promptly deposited.

-- Accounts receivable were not sufficiently administered at most accounting stations. The receivables were not promptly and accurately recorded in the accounting records, and efforts to collect outstanding receivables were neither prompt nor aggressive.

Recent events surrounding the implementation of the new universal Customs Bond form serve as an excellent example of the failure of this agency to adequately plan for new computer systems. On October 19, 1984, the Customs Service issued a final rule implementing a new surety bond form designed to simplify transactions between Customs and the importing public and to facilitate the establishment of an efficient computerized bond control system. This system was fully implemented on February 18, 1985.

This new bond form and system were described to the House Trade Subcommittee in testimony provided by Commissioner von Raab last year. The Commissioner said:

> "The new bond system when fully implemented will be a fully automated on-line system. The record retrieval capabilities and speed inherent in such a modern day system will expedite entry documentation flow and thus facilitate the movement of cargo. Additionally, the record and information storage capabilities of the system when linked with bond limits will enhance our revenue protection efforts. The system will automatically check for bond sufficiency and immediately notify the cognizant Customs officer if the bond amount is adequate, approaching its limit or is exceeded. The immediate availability of this information will permit the officer to review the facts and make a determination if an increased bond amount is required. The ability to respond to such situations will greatly enhance our revenue protection and enforcement capabilities."

All that we can say with respect to this statement by the commissioner is that we wish it were so. Unfortunately, we must report to you that the new bond form was fully implemented last month, but the agency's computer system is not yet in place to support this new bond structure. Implementing this new form prematurely has resulted in a thoroughly predictable amount of confusion. While we have tried diligently to work with the agency in recent weeks to obtain clarification with respect to a number of technical matters insufficiently addressed in the final rule, we have found that considerable doubt remains with respect to the implementation of this new form in dozens of this nations ports. In addition the predictions made by Commissioner von Raab that this new form will save the importing public some $11 million per year seem unlikely to materialize since some of the major surety companies have raised their premium rates substantially, in one case some 300%.

## CONCLUSION

It would be our recommendation that this subcommittee ask the U. S. General Accounting Office to expand upon its past management control studies of the Cutoms Service and specifically examine the following matters:

-- the cost/benefit of consolidating all agency financial management operations in Indianapolis, Indiana. Plans for such consolidation are now in the early stages of implementation.

-- the wisdom of the agency's entering into debt payment arrangements at rates of interest unfavorable to the government in situations where a surety is available to make full payment to the government.

-- the paperwork and financial cost/savings associated with the new universal Customs Bond form.

-- the feasibility of a totally paperless commercial entry which Customs has as one of its major long term goal.

# AGREEMENT

This agreement is made this 28 day of December, 1982, by and between LIBCO INCORPORATED, a corporation organized under the laws of the State of New Jersey (hereinafter referred to as "LIBCO") on the one hand, and, on the other hand, the UNITED STATES CUSTOMS SERVICE (hereinafter referred to as the "UNITED STATES").

The UNITED STATES has assessed additional duties pursuant to Title 19, United States Code, section 1402(g) on ADIDAS brand footwear classified under item 700.60 of the Tariff Schedules of the United States, Title 19, United States Code, section 1202, and imported on entries filed between November 10, 1977, and October 2, 1979, by LIBCO. The UNITED STATES has liquidated said entries and billed LIBCO for such additional duties in the amount of Nine Hundred Two Thousand Two Hundred Ninety Nine and Twenty Hundredths Dollars ($902,299.20).

LIBCO disputes its liability for such additional duties.

The UNITED STATES and LIBCO agree to settle this dispute as follows:

1. This agreement is for settlement purposes only, and is not an admission that LIBCO is to any extent liable for additional duties on its importations of ADIDAS brand footwear during the aforesaid period. This agreement is not an admission by the UNITED STATES that the assessment of the additional duties on the importations of ADIDAS brand footwear during the aforesaid period is erroneous.

2. LIBCO shall pay to the UNITED STATES the sum of Six Hundred Sixty One Thousand One Hundred Fourteen Dollars ($661,114) in consideration for actions taken by the UNITED STATES set forth in paragraph 3. Payment shall be made by LIBCO in not more than twenty-four (24) monthly payments of not less

than Twenty Seven Thousand Five Hundred Forty Six and Forty Two Hundredths Dollars ($27,546.42) beginning January 1, 1983, plus interest at the rate of seven percent (7%) per annum from the date of such first payment. LIBCO shall have the right to prepay, in whole or in part, any amount hereunder, without any penalty, charge or assessment. If default is made in the payment when due of any installment, then the entire amount of principal and interest shall become immediately due and payable at the option of the UNITED STATES, upon demand. LIBCO hereby authorizes any attorney of the UNITED STATES to appear in any UNITED STATES district court, on default in any payment required by this paragraph, and waive the issuance and service of process, and confess a judgment against LIBCO in favor of the UNITED STATES for the entire balance of the Six Hundred Sixty One Thousand One Hundred Fourteen Dollars ($661,114) together with interest and costs of suit, and to release all errors and waive all right of appeal.

3. With respect to the entries of ADIDAS brand footwear by LIBCO during the aforesaid period:

(a) The UNITED STATES shall cancel all bills for additional duty on liquidated entries during the aforesaid period;

(b) Within ten (10) days of the date of this agreement, the UNITED STATES shall issue instructions to cancel such bills in accordance with subparagraph (a) of this paragraph;

(c) LIBCO waives any further procedural or administrative steps with respect to such entries;

(d) LIBCO waives all rights to seek administrative or judicial review or otherwise challenge or contest the validity of this agreement or the liquidations except in case of breach of this agreement by the UNITED STATES.

4. The UNITED STATES hereby releases, waives, remises and discharges in full all claims for additional duties assessed on the aforesaid ADIDAS footwear.

5. This agreement shall be binding upon the UNITED STATES and LIBCO and shall inure to the benefits of the UNITED STATES and LIBCO and their respective subsidiaries, affiliates, parents, officers, directors, employees, representatives, agents, successors and assigns.

6. This agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which, together, shall constitute one and the same instrument.

7. This agreement includes the accompanying promissory note and represents the entire understanding and agreement between the UNITED STATES and LIBCO and their respective subsidiaries, affiliates, parents, officers, directors, employees, representatives, agents and assigns, with respect to the liability for the aforesaid duty assessments, supersedes any prior negotiations, letters or understandings relating thereto.

In witness whereof, the parties, intending to be legally bound hereby, have executed this agreement on the date first above written.

LIBCO, INCORPORATED

Anthony E Datome, V. Pres.

THE UNITED STATES CUSTOMS SERVICE

Alfred R De Angelus

THE DEPARTMENT OF THE TREASURY

David D. Bates for
John Walker

## PROMISSORY NOTE

Washington, D.C.
December 28, 1982

For value received, I, the undersigned, being the duly authorized agent of LIBCO, INCORPORATED promise on behalf of LIBCO, INCORPORATED that LIBCO, INCORPORATED will pay to the order of the United States Customs Service, 1301 Constitution Avenue, N.W., Washington, D.C. 20229, or its assignee, with interest payable from January 1, 1983, on the outstanding balance, at the rate of seven percent (7%) per annum, the sum of Six Hundred Sixty One Thousand One Hundred Fourteen Dollars ($661,114) payable in no more than twenty-four (24) installments of at least Twenty Seven Thousand Five Hundred Forty Six and Forty Two Hundredths Dollars ($27,546.42); the first payment to be made on January 1, 1983 and no less than that amount every month thereafter until the full amount has been paid. Advance payments or other additional payments may be made on this note at any time. Each payment shall be applied first to the payment of accrued interest and second to the payment of principal.

If default is made in the payment when due of any installment, then the entire amount of principal and interest shall become immediately due and payable at the option of the United States, upon demand. The undersigned hereby authorizes any attorney of the United States to appear in any United States district court, on default in the payment of this note, and waive the issuance and service of process, and confess a judgment against the undersigned in favor of the U.S. Government for the entire balance of the note together with costs of suit and to release all errors and waive all right of appeal.

The undersigned waives presentment for payment, demand, protest, and notice of protest, and dishonor of the same.

Anthony E. Patine, V. Pres (Seal)
LIBCO, INCORPORATED
One Silver Court
Springfield, New Jersey 07081

Witness:
Max Lichtenberg, Esq

Accepted for the United States Customs Service by:

Calvin J. Dorn
(Signature)

Statement of The Air Transport Association of America
Before the Subcommittee on International Trade
Committee on Finance
United States Senate
On the FY 1986 Authorization
for the U.S. Customs Service
April 3, 1985

The Air Transport Association of America, which represents most of the scheduled airlines of the United States appreciates this opportunity to offer several observations for the consideration of the subcommittee with respect to the FY 1986 authorization for the U.S. Customs Service.

Before turning to those specifics, however, we wish to register three general comments regarding current Customs operations.

First, the airlines commend the U.S. Customs Service for implementing the dual passenger channel inspection system, commonly referred to as the red/green door procedure, at a number of U.S. gateway airports last year. The airlines now ask that this tried and proven procedure be extended to all other U.S. gateway airports.

Second, in order to cope with the international passenger traffic at the Miami and Kennedy International Airports, Eastern Air Lines should be permitted to construct Customs inspection facilities in its terminals at those two airports. These multi-million dollar Customs facilities will be built by Eastern at no cost to the government and in accordance with the exact specifications and dictates of the Customs Service. Northwest Airlines should also be permitted to construct similar Customs facilities in its satellite terminal at New York's Kennedy International Airport. Because of environmental impact and related considerations, and the huge costs involved, new commercial airports are no longer being built. In order to include a federal inspection agency area, the only option remaining to accommodate international air services is for an airline to remodel existing facilities. This is exactly what Eastern and Northwest have requested authority to do, but they have been frustrated by lack of approval from the U.S. Customs Service, apparently because of the additional inspector staffing required.

Third, the airlines continue to be concerned over the requirement to reimburse the Customs Service for services performed outside of regular tours of duty during weekdays, including Saturdays, and between 5:00 p.m. and 9:00 a.m. on Sundays and holidays. This practice compels airlines to pay Customs employees over $10 million each year to perform duties and functions which are entirely the responsibility of the government itself. We believe holding private parties responsible for the performance of purely governmental functions is wrong to begin with. But when the government is conducting its business in the interest of the general public, not in the interest of just a few private parties, such reimbursement practices are indefensible. The airlines urge that this matter be addressed through appropriate revisions to the Customs overtime laws.

In a related hearing, the Air Transport Association testified before the Washington State Congressional delegation in Seattle, Washington. This informal hearing was held on February 15, 1985, to investigate the current and future operating procedures of the Customs Service. For the most part, the hearing focused on problems as they relate to Customs at the Seattle-Tacoma International Airport. However, the problems experienced and those discussed at the hearing are ones shared on a national level. The remainder of this statement focuses on three areas of airline interest and proposes several ideas to resolve existing problems.

## I Informal Entry Preclearance

In the previous Congress, legislation containing an informal entry provision was enacted, in large part due to the efforts of this subcommittee. The provision permits an increase in the informal entry limit for most commodities to $1,250 up from $250, although the limit will be held for the time being to $1,000 by administrative ruling.

So that U.S. Customs inspectors at preclearance locations in Canada, Bermuda and the Bahamas may retain and further enhance their cargo processing skills, as well as to facilitate preclearance of low value shipments, the airlines urge implementation of a procedure at these locations which will permit preclearance of all duty-free informal merchandise. No monies would be involved under this approach and, therefore, problems of foreign currency transactions abroad would not arise. With the support of the subcommittee, we urge a test of this concept at a selected preclearance location as soon as possible.

## II Customs Cargo Computerization

Computer processing of air cargo inventory and associated data necessary for Customs entry is under intensive study at New York and Miami, where automated systems for import and export processing are being developed. The Miami Airport Authority has announced plans for a Miami International Cargo System, while the New York Port Authority has developed functional requirements for its Fast Flow System. We anticipate other U.S. gateway airports will develop their own systems in the not too distant future.

The airlines are concerned that the multiple approaches to automatation at various gateways will lead to conflicts, duplication of efforts, and added costs. Variations among airport systems will generate problems for the users and the Customs Service. Unlike most other countries, the United States has many gateway airports, to and between which airlines transport imported and in-bond merchandise. Thus, the computer system at each gateway must be compatible with all others as well as with any national air cargo computer system which may be developed by the U.S. Customs Service.

There is a need, accordingly, for a common discipline among these sytems and the airlines therefore request the formulation of guidelines by Customs which address standards for communications interconnections among the several port computer systems. We ask that these guidelines cover the design parameters for a large scale Customs computer based information and tele-processing system for the balance of this decade. These guidelines are in order to assure a uniform national Customs automated air cargo system, a system which deals adequately with the interaction of local port authorities, forwarders, brokers, shippers and airlines in the processing of exports as well as imports.

Perhaps the subcommittee could request the General Accounting Office to undertake a study of this important matter by detailing the costs involved, enforcement and facilitation criteria, interfacing needs with the air cargo community, and the inter-airport computer compatibility considerations previously noted.

In examining Customs needs and requirements for air cargo computerization during the rest of this decade, the General Accounting Office could also examine air cargo computerized systems operations in other countries, for example, in England, France and Japan. Knowledge of how these and other countries were able to resolve some of the problems now facing the U.S. Customs Service would be of help in the formulation of any guidelines. Finally, attention could also be given to the possibility in the future of inter-country Customs computer interfacing systems.

## III U.S.-Canada Customs Association

In order to provide inspection efficiencies and eventually reduce the number of Immigration inspectors along the U.S.-Canadian border, the airlines recommend implementation of a Customs and Immigration association for transborder travel. In view of the similarity of United States and Canadian Customs, Immigration, Agriculture and Public Health missions, problems, needs and requirements, such an association appears ripe for consideration by this subcommittee.

Under such a plan, for example, visitors admitted to one country would be admissable, in most cases, to the other country and could otherwise freely travel across the common border without further immigration inspection. This plan would allow goods accompanying travelers crossing the U.S.-Canada border to be, within reason, duty exempt. Such a Customs association concept could be considered first in terms of U.S. and Canadian citizens, with eventual application to overseas visitors.

Companion implementation of U.S.-Canada Customs and Immigration associations for trans-border travel would eliminate the need for Customs and Immigration inspectors along the common border and at airports for trans-border air travel.

## Conclusion

In conclusion, we are concerned by Customs' intention to eliminate 206 inspector positions which are currently unfilled. Rather than contemplating such a cut, more inspector positions should be added in the FY 1986 budget to address continuing passenger and cargo processing delays at our gateway airports. In any event, Customs will need to streamline its inspectional operations further and otherwise improve the efficiency of their management systems. The measures which we have outlined, namely, implementation of informal entry preclearance, formulation of Customs cargo computerization guidelines, construction of inspection facilities by the airlines at no cost to Customs at terminals at the Kennedy and Miami airports, and development of a joint U.S.-Canada Customs and Immigration association will streamline and facilitate passenger and cargo inspection processing and will substantially reduce costs to the Government.

**Maryland Department of Transportation**
Maryland Port Administration

William K. Hellmann
Secretary
W. Gregory Halpin
Port Administrator

APR -3 AM 9:1[illegible]

March 27, 1985

Honorable John C. Danforth
497 Russell - S.O.B.
Washington, D.C. 20510

Dear Senator Danforth:

I am writing in regard to the hearing which will be held April 3, 1985 on the U.S. Customs Service before the Senate Finance Committee.

On behalf of the Maryland Port Administration, we wanted to bring to your attention several concerns of the Baltimore maritime community on Customs issues, which have also been directly raised to Commissioner William von Raab by Senator Paul S. Sarbanes and the Maryland Congressional Delegation.

First, there is severe understaffing at the Port, which has witnessed inspector reduction from 78 in 1982 to just 44 today. These inspectors are being pressed into service at both the Port and Airport, thus not serving the needs of expeditious cargo flow.

Next, the Baltimore maritime community is experiencing difficulty in fashioning a devanning program which was applied to the U.S. port industry without proper notice and preparation by the Customs Service.

Finally, like other major U.S. Ports,Baltimore is considering what automated cargo clearance systems to utilize as we move forward with computer technology. We have a very active public-private Port Committee studying this issue, however, they are in receipt of contradictory and non-specific guidance from the federal level. The cost for this system will be borne totally by the State of Maryland and customers of our facilities and movement by the State toward computerization should not be used as an excuse to further reduce needed personnel.

My Telephone Number is (301)- 659-4500

The World Trade Center Baltimore, Baltimore, Maryland 21202

Teletypewriter for hearing or speech impaired:
Baltimore Metro: 383-7555
D.C. Metro (toll free): 565-0451
Statewide toll free: 1-800-492-5062

In closing, I request that this letter, as well as my attachments, be made part of the record of your hearings, and we stand ready to work with you and your staff as we attempt to reach solutions to this serious problem.

Sincerely,

W. Gregory Halpin
Port Administrator

WGH/dha
Attachments

cc: Secretary Wm. K. Hellmann
Maryland Delegation

PAUL S. SARBANES
MARYLAND

COMMITTEES:
BANKING, HOUSING AND URBAN AFFAIRS
FOREIGN RELATIONS
JOINT ECONOMIC

United States Senate
WASHINGTON, D.C. 20510

OFFICES:
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1110 FIDLER LANE
SILVER SPRING, MARYLAND 20910
589-0800

CUMBERLAND: 722-5369

SALISBURY: 546-4998

R
Customs

March 8, 1985

Mr. Richard A. Lidinsky, Jr.
Maryland Port Administration
The World Trade Center Baltimore
Baltimore, Maryland 21202

Dear Rick:

Knowing of your concern about the operation of the Port of Baltimore, I wanted to make sure you had a copy of the enclosed letter to the Commissioner of the U.S. Customs Service asking for a review of a number of Customs Service policies affecting the Port. In my view, it is essential that the Customs Service maintain adequate resources to handle both maritime traffic at the Port and passenger traffic at BWI. In this regard, I am pleased that the entire Maryland Congressional Delegation joined me in signing the attached letter and you can be certain that I will continue to do all I can to call attention to the need for efficient and effective Customs processing at the Port.

If you have any questions or comments about these issues or other matters affecting the Port, please do not hesitate to contact my office. It is always helpful to have the benefit of your observations.

With best regards,

Sincerely,

Paul

Paul S. Sarbanes
United States Senator

PSS/jpt
Enclosure

PAUL S. SARBANES
MARYLAND

United States Senate
WASHINGTON, D.C. 20510

March 4, 1985

William von Raab
Commissioner of Customs
United States Customs Service
1301 Constitution Avenue, NW
Washington, DC 20229

Dear Commissioner von Raab:

We are writing as members of Maryland's Congressional delegation to express our concern about a number of issues affecting the availability of prompt and efficient Customs processing in the Port of Baltimore.

First, the Baltimore office appears now to be simply understaffed. As you are well aware, the number of inspectors serving the Port has been reduced from 78 in 1982 to 44 today. We raised questions about cutbacks at the time Baltimore lost its regional office. It appears that our fears have been realized. Agents already hard-pressed to serve maritime traffic are being diverted to process passengers at the growing Baltimore-Washington International Airport. It is important to maintain adequate coverage of both air traffic and maritime commerce, and the current staff is not sufficient.

Second, the Customs Service is not working closely enough with the Maryland Port Authority and other port officials in developing policies that may have a substantial local impact. Without much consultation, regulations have been issued requiring ports to establish, at their own expense, common facilities for devanning - the process of opening and inspecting containerized cargo. Other proposals have been made to require ports to implement, again at their own expense, systems for computerized customs processing. The State of Maryland is attempting to prepare for such a system but is receiving very little firm guidance from the Customs Service.

It is clear from these proposals that you are attempting to move in the direction of shifting the burden for customs processing onto ports and local users, leading ultimately to further cutbacks in personnel at the Federal level. It is not clear to what extent this approach will be endorsed by Congress. We are concerned that no action be taken prematurely in anticipation of these policies being implemented.

We ask that you thoroughly review the level of resources allocated to the Baltimore area and outline for us what steps you can take to improve the situation in the port. We would also ask that you describe for us the status of your proposals regarding devanning and computerization and your strategy for working with local authorities on these issues.

With best regards,

Sincerely,

Paul Sarbanes

Charles McC. Mathias, Jr.
United States Senator

Paul S. Sarbanes
United States Senator

Marjorie S. Holt

Parren J. Mitchell

Marjorie S. Holt
Member of Congress

Parren J. Mitchell
Member of Congress

Michael D. Barnes

Barbara A Mikulski

Michael D. Barnes
Member of Congress

Barbara A. Mikulski
Member of Congress

Roy Dyson

Beverly Byron

Roy Dyson
Member of Congress

Beverly B. Byron
Member of Congress

Helen Delich Bentley

Steny Hoyer

Helen D. Bentley
Member of Congress

Steny H. Hoyer
Member of Congress

MARYLAND PORT ADMINISTRATION
PRESS CLIPPING
Port of Baltimore
The World Trade Center Baltimore
Baltimore, Maryland 21202

R. Customs

Newspaper NEWS AMERICAN 3/17/85
City
Date

# Blackmailing the port

Ah, the Reagan administration: Unless your work is connected with the port, you probably don't know that it has:

- Reduced the number of U.S. Customs Service inspectors assigned to Baltimore, which is to say the port and BWI airport. In 1962 there were 78 inspectors; 44 today. This has had the effect of imperiling the port's business: Delays, especially in clearing ships' cargoes, have added to the cost of inland freight because the companies that pick up the cargoes wait for hours on the docks.

- Threatened to cut back even more unless the state — meaning the Maryland taxpayer — comes across with a $1.2 million computer setup to assist in the inspection work. The state has had no choice but to respond to this blackmail: Money for the computer is in Gov. Hughes' budget as part of his export trade package.

Not that the computer, which will be owned and maintained by the state even though it will be tied into Customs' own computer in the Washington area, won't help. It will store information about the ships that call at the port: When, for example, the computer indicates that the Danish ship due to berth at Dundalk tomorrow has no history of having been used in narcotics smuggling, Customs will know that its inspectors will need to spend little time with its cargo, opening not every container (as might be the case with a South American vessel), but only two or three.

**Customs collections here enrich the federal treasury by $350 million a year. To reduce port activity by driving away businesses that collect the cargoes makes utterly no sense.**

But the point that port people make is that there still need to be inspectors, a lot of them (800 inspections are required each month at Dundalk alone) and to cover the increasing international traffic at the airport. They point out, too, that customs collections here enrich the federal treasury by $350 million a year, and that to reduce port activity by driving away businesses that collect the cargoes makes utterly no sense.

Sen. Paul Sarbanes has sent a letter, signed by every member of Maryland's congressional delegation, to William von Raab, the customs commissioner, asking him for a "thorough and immediate review of these changes" and strongly suggesting that the commissioner "take steps to improve the situation," including working more closely with the Maryland Port Administration. Lots of luck.

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Committee on Finance in a hearing on Fiscal 1986 budget authorizations for international-trade functions. April 3, 1985

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

This statement is limited to the International Trade Commission, specifically the structure of the Commission and the adequacy of ITC investigation and analysis in import-relief cases.

## Commission Structure

We question the need for six commissioners (the statutory complement). Although, after inexcusable Presidential delays in filling commissioner vacancies, the Commission again has its full statutory complement, this return to full strength in quantitative terms is not the same as being strong. There is reason to believe that the Commission would operate more efficiently and productively with fewer than six commissioners. Moreover, each seat terminated would save the taxpayers more than $100,000 a year when the total costs of each commissioner's office are considered. The Commission got along well with four or five commissioners at various times in its long history.

We also question the wisdom of the statutorily required rotation of the ITC chairmanship (and vice chairmanship) every two years. Each commissioner is not ipso facto qualified to be chairman, to mention only one of the flaws in the rotation routine. In addition, we question the authorization of a personal professional staff (particularly a legal advisor) for each commissioner, notwithstanding the legal and economic staffs of the Commission per se. We understand that each commissioner is authorized to have four persons, of whom no more than one can be higher than GS-15 and no more than one additional person can be higher than GS-14. We suggest Congressional inquiry into the extent to which the existence of these private staffs has led to undesirable rivalries between the respective staffs, adversarial relations between commissioner staffs on the one hand and the Commission staff on the other, and other developments affecting adversely the quality and utility of commissioner opinions in import-relief and other cases. The budget savings from reducing or eliminating these personal professional staffs may be of little consequence but, even if this be the case, it is no justification for neglecting inquiry into the desirability of such reform. The money saved in reducing or removing these private staffs might be spent more productively in strengthening the economic and legal staffs of the Commission per se.

## Commission Performance in Import-Relief Cases

The Commission is not fulfilling its explicit and implicit obligations under the Trade Act of 1974 in import-relief investigations. It is neglecting the full implications of Section 201(b)5 of that legislation by not fully assessing the adequacy of steps the petitioning industry has taken toward becoming more competitive with imports, and not assessing the extent to which government statutes and regulations may be impairing the industry's adjustment capability. Also neglected is assessment of the differential impacts which import restriction may have on different sectors of the industry. Windfall gains for sectors not needing government help may cause additional problems for those that do.

Not all these analytical factors may materially affect the Commission's decision in every case, but all are important for the President to take into consideration if he wishes to develop a coherent industry-adjustment policy with respect to and in cooperation with the petitioning industry, whether or not the Commission finds serious injury or the threat thereof, but particularly if it does. Such an adjustment strategy should be the framework for any resort to import control, and the trade legislation should so require. However, the President is free to proceed along these lines even without a legislative mandate, and the ITC should want to help him in this regard in every way it can. Nothing in the trade law prevents the Commission from doing so. In this regard, the Commission is less imaginative and innovative than it can and ought to be.

Appended to this statement is a copy of the letter I sent President Reagan on July 9, 1984, urging the President to initiate the reform outlined above in his handling of the import-injury findings in steel and copper which the Commission had just announced.

## Concluding Comment

In short, the International Trade Commission itself is as much in need of overhaul as its rickety old building. The need for reform in Commission structure and performance is not getting the attention it deserves from both ends of "the Avenue".

U.S. Council for an Open World Economy
INCORPORATED
7216 Stafford Road, Alexandria, Virginia 22307
(202) 785-3772

July 9, 1984

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing to propose an innovative initiative on your part concerning how best to respond to the International Trade Commission's recent findings of serious injury in the steel and copper cases, and to the expectation that the Commission will recommend import restrictions of some kind for the affected steel products as it has now done for copper. I virtually pioneered this kind of initiative in the 1960's.

Very briefly, I urge that, if you accept the ITC findings of serious injury and consequently proceed with some form of import restraint, you should cast these import restrictions in the framework of a coherent steel-industry adjustment strategy (and, in the case of copper, a coherent copper-industry adjustment strategy), targeting the real problems and needs of these industries in the context of the total national interest. Any import restrictions you decide upon are supposed to buy time for the particular industry to strengthen its competitive position. But passive expectation that the industry will do what needs to be done is not a sufficient basis on which to predicate such a government subsidy. Instead of such a pig-in-a-poke approach to import restraints (long in need of reform), a coherent redevelopment strategy (possibly including some restructuring of the particular industry) should be formulated in close association with the industry's corporations and labor representatives. Business and labor commitments toward building a viable industry should be a condition for any help the government might provide. The trade legislation says nothing about your proceeding in this fashion, but nor does it prohibit you from doing so -- that is, at least attempting to mold a strategy comprising measures by business and labor as well as government.

The nation has never had such strategies with respect to industries for which import controls (in other words, subsidies) have been provided. Such a strategy should include reassessment of all statutes and regulations materially affecting the industry's ability to adjust to current economic realities, and correction of any inequities that may be found in these statutes and regulations. If you decide that import restrictions are necessary and cannot be delayed until the related adjustment strategies are in place, you could establish the import restraints you deem necessary and declare that the related adjustment strategies will be forthcoming as quickly as possible. Incidentally, such strategies could help accelerate termination of any import restraints you may decide to establish. If you feel that import restriction is not an advisable remedy but that government assistance of some kind is necessary and proper, a coherent, comprehensive program of government help not including import restraint, and in concert with measures by business and labor, should be the framework for the assistance provided. Such aid should include, but not be limited to, possibilities of "adjustment assistance" the trade legislation authorizes for individual firms, workers and communities.

Unfortunately, I have serious doubts as to whether the material now available to you from either the International Trade Commission or the appropriate executive agencies includes the kind of documentation you would need for the kind of assessment and policy framework I have advocated. In this connection, it is unfortunate that the footwear case, in which the ITC rejected the footwear industry's petition for import relief, did not for this reason reach you at all so that you might determine what if any government assistance the footwear industry might merit even though there was no finding of serious injury (or threat thereof) from imports. You may nevertheless wish to look into the possible need for, and the advisability of, assistance to the footwear industry along the lines I have outlined.

If, as I suspect, the record before you in the steel and copper cases does not include the kind of documentation to which I have referred, I recommend that you send these cases back to the Commission for such information, and that you concurrently ask the appropriate executive agencies to prepare for you the kind of material you will need for the kind of attention I believe you should give these cases.

In short, Mr. President: no steel import controls (or other government aid) without a coherent steel policy, and no copper import controls (or other government aid) without a coherent copper policy.

Please let me know if I may be of any assistance on these issues. Our Council does not act on behalf of any "special interest". Our sole concern is the total national interest.

Best wishes.

Sincerely yours,

/s/

David J. Steinberg
President

## STATEMENT OF THE EL PASO CUSTOMHOUSE BROKERS ASSOCIATION

The El Paso Customs Brokers Association wishes to take this opportunity to express our concern over the possible reduction in service and personnel at the El Paso U.S. Customs District office.

While the U.S. Customs Service will indicate that the downgrading of the local office from a full service duty assessment center to that of merely a port will not result in a reduction in service to the local community involved, just considering the title of the designated Full Service Centers gives answer to their claim.

Realize that as Customhouse brokers, we would probably benefit from the downgrading of the El Paso operation, since the Importers would in effect be forced to use our services since there would be no one available to advise or assist them in clearing their shipments. We must however in honesty admit that the city of El Paso, the importing community, and major Fortune Five Hundred firms throughout the country would be adversely affected by such a drastic action.

The El Paso metropolitan area of over one million people has one of the highest unemployment rates in the southwestern part of the country. The recent Peso devaluation almost destroyed the retail and department store business of the city. This business loss also extended into all types of commercial and consumer trade involving business, farming and manufacturing. Sales of equipment as well as automobiles and farm implements were affected. The area has yet to recover and has already requested and received some federal assistance.

The Peso devaluation did however cause many major U.S. manufacturing giants to begin bringing back from the far east their labor intensive assembly operations. Along with the return of these labor intensive sub-assembly operations to the North American continent came unexpected benefits to U.S. workers. More basic materials are now being purchased in the United States, more component parts are being purchased from U.S. manufacturers and after the labor intensive sub-assemblies are produced in Mexico, they are being brought back into the United States for the final assembly operations.

These majors firms need to know just how their importations will be assessed duty by U.S. Customs since their profitability may hinge on a swing of several cents per item. At present these firms can learn this information right here in El Paso, right where they are locating their administrative offices.

The El Paso Juarez area has the largest number of assembly operations (often called 807 operations ) of any location in the United States. This did not happen by accident. A great number of organizations have worked very hard to bring it about, realizing that the economic future of El Paso depended upon its cultivation.

- The city through its support of the Chamber of Commerce and the Industrial Development Corporation. - the business community through its involvement in both of the above organizations. - Individuals through their volunteer service in organizations like the Inter-City Group, - even the Univeristy of Texas at El Paso through its support and furnishing of assistance from its department of business management.

To break up this winning operation by removing the most essential ingredient - the complete U.S. Customs Service now present in El Paso and moving to an almost inaccessible location like laredo would seriously damage this community.

While the Commissioner of Customs had publically stated he wants to take the "Service" out of the U.S Customs Service, I fear that the reduction of such service would result in further economic decline of the area.

Why would the withdrawal of the Import Specialist and the other support functions of the El Paso Customs office cause such a disruption? - Because the El Paso Classification and Value office is the most knowledgeable, competent office in the U. S. Customs service in administering and processing importations involving 807 assembly operations. This is borne out by the fact that numerous multi-national firms not even importing through El Paso have sought advice on their operations through other ports from the El Paso Customs community. Also the low number of fraud or undervaluation cases in El Paso points out that the informed importers want to do right, or fear to do wrong when such a strong office scrutinizes their operations.

Even the U.S. Customs service recognizes that El Paso is the center of 807 assembly appraisement operations, since a nationwide seminar on 807 appraisement actions is scheduled to be held here in El Paso later this spring. It will consist of National Import Specialists from New York, representatives from the Customs Washington offices of Rulings and Regulations, top management people from the Houston Regional Office along with personnel of all U.S./Mexican border U.S. Customs appraisement offices.

The presence of Import Specialists to advise importers, both present and prospective does not cost the government, it save the government money. The Tariff Act of 1930, as amended requires that when a susidiary of a U.S. firm forwards goods to the United States that a complete disclosure of the cost of assembling the goods, called the Computed value, be submitted to U.S. Customs. Unless the Import Specialist discusses with the Importer just how this reporting should be done, he will have to spend much more time understanding and analyzing the various different reports that while meeting the legal requirements still are put together in different manners.

While we in the Customhouse Brokerage business have made every effort available to us to stay current on U.S. Customs determinations, we are always at least six months to a year behind Customs decisions, because it takes that long for them to be published in the Customs Bulletin. We therefore must rely on the El Paso Import Specialists to advise us and those importers not using our services, of the latest rulings. If they are not here in El Paso the 807 assembly importers will not know the latest decisions that may impact negatively on them.

Another very important reason for maintaining the El Paso Distict Office in its present status is that unlike the rest of the Customs operations in the country, the Import Specialist here actually examine the merchandise that they subsequently appraise. They touch and feel and twist and turn and then really understand the imported merchandise. This means that fewer El Paso importers will be told several years after their goods has been imported and sold, that U.S. Customs discovered that the rate of duty on which the importer was paying was wrong and they now owe large additional amounts of duty.

Why not keep the El Paso office in its present mode to compare the other "improved" operations against?

We believe that the reduction of U.S. Customs at El Paso from that of a full service duty assessment center to merely that of a port would curtail the economic recovery of the community, cost U.S. Customs more money, and actually cause more U.S. jobs to be exported to the far east.

April 3, 1985

### Senate Committee on Finance
### Comments of the National Customs Brokers & Forwarders Association on the U.S. Customs Service FY86 Budget

Mr. Chairman: Thank you for this opportunity to testify before the Committee and comment on Customs' budget for fiscal year 1986. The National Customs Brokers & Forwarders Association of America, Inc. (NCBFAA) was founded in 1897 and is the trade association representing this industry in the U.S. The customs brokers members of NCBFAA and its twenty-nine affiliated associations located at major ports throughout America handle approximately 85% of the nation's commercial importations. Forwarders on the other hand expedite the processing of our nation's exports and, together with the customs brokers, perform the day-to-day, at-the-port operations that lies at the heart of our trading system.

Members of our association have been part of the evolution of the U.S. Customs Service since our founding. We have seen the growth and the development of its functions and responsibilities. We have witnessed the swing of the pendulum from the active promotion of trade after WWII to the era of the import surcharge of 1971: its concern for the orderly flow of imports shift to the intensive involvement with narcotics interdiction. We have been through the decentralization of the 1960's and the centralization of the 1980's. At times the deja vu is overwhelming, as we see the same ideas recirculate again and again. We, as an industry whose clients include the majority of the importing and exporting trading community, are extremely concerned the Customs has lost sight of its mission. This time, the pendulum has swung too far.

It is a time when the narcotics problem in the U.S. has reached crisis proportions and the need for drug interdiction resources at the borders and ports is acute. We are witnessing concurrently a flow of imports in record volume and have inadequate resources for detecting import fraud and collecting revenues. We are automating Customs and have little of the staffing necessary to input data and service the system. We are witnessing the flow of our technology behind the Iron Curtain and cannot provide the personnel to implement Operation Exodus, a highly visible program. And, incredibly, we are now working at a budget request that calls for a reduction at Customs of 887 in FY86.

How is this to be achieved? Automate and consolidate, says Customs. In order to meet its obligations in the commercial area, the Customs Service started to automate in 1967, an effort which is only now beginning to show even a modest sign of success. Unfortunately, the seductive nature of automation is such that many functions that could be better performed manually are brought into the system time and again before the module being tested is operating satisfactorily--this has proven to be no more than attempts to "cut the foot to fit the shore." Personnel in the area affected is reduced, resulting in a breakdown of the automated system with little or no manual backup while volume increases, cargo languishes at airports and piers, backlogs of paperwork proliferate and passengers grumble because of lack of service. And the cost of automation ticks on like a taxi meter. A headquarters Customs official recently declared that the cost of the software to feed the new IBM 3084 is $1,000,000 every three months - and the total system is still not up and running - since 1967. In the meantime, due to shrinkage in personnel, Customs field officials have issued directives stating that:

- Import specialists will only be available for consultation with importers on an appointment basis and will only accept phone calls regarding "complex case;"
- Inspectors can only look at cargo at piers from 9 AM to 2 PM in order to be available to examine passengers arriving at airports

The computer is a valuable tool. Customs must have it to bring itself, as it says, "into the 20th century." But it must also have trained personnel, import specialists, inspectors and administrators in the field. Computers are marvelous aids, but they can't think for themselves. They can't tell is a sweater is ornamented and takes a higher duty or if a handbag violates someone's domestic trademark. And curiously, the absence of a CRT operator or a computer breakdown can close a port down, whereas a trained inspector or import specialist has mobility, can improvise, and keep commerce moving.

Centralization of functions has also been offered as a partial solution to the problem. In many ways it is a sensible approach. But it is no substitute for having personnel at the port who can assist the public and are available to review and insure the correctness of documentation at the time of filing.

Consolidation, while offering that initial appeal, has much the same effect as automation: it deprives the public of access to expertise in a highly complicated and demanding process. And, too, consolidation will have a stifling effect on the ability of many of our key geographic areas to participate in trade and enjoy the benefits of a direct flow of commerce into and out of their ports. Drawback —— one of government's initatives for expanding our dwindling export trade - is a case in point. "Drawback" is a remission in which whole or in part of a customs duty, internal revenue tax, or fee lawfully assessed or collected because of a particular use made of that merchandise. The rationale for drawback has always been to encourage American commerce or manufacturing. It permits the American manufacturer to compete in foreign markets without having to include in his costs, and consequently his sales price, the duty paid on imported merchandise. Drawback claims are generally handled at the regional level. Claimants have the opportunity for discussions, with the regional drawback liquidator, for the purpose of expediting the claim process and reducing the necessity for subsequent time and labor consuming changes or amendments. If the liquidation function is removed from the regions and is centralized in one location, as has been proposed, the opportunity for such time saving discussions, prior to filing, will be lost or greatly diminished and the processing of applications will become more cumbersome, requiring greater subsequent review and more frequent rejection. Centralization into one of the seven existing regions will either necessitate the training of new inexperienced personnel to supplement the drawback staff in the selected (central) region or greatly increase the work load of those in the selected region. Delays in paying drawbacks are almost certain, and are likely to discourage some companies from taking advantage of drawback. Since it is one of the few export incentives offered by Government, nothing should be done to make it more burdensome to file for drawback.

Yet, given these plans for reduction and consolidation, how well is Customs doing with the resources now at their disposal? Reports from across the nation indicate that Customs is understaffed. Automated equipment is inadequately utilized because there are insufficient clerks to input data. Narcotics flow into our country is unabated. Even in Florida, where the primary focus has been directed, best estimates of intercepted cocaine and marijuana are only in the 20-30% range. Cargo remains delayed on the docks for greater periods of time that ever before and our members spend their time explaining to customers why shipments are late and to truckers about the amount of the demurrage. Reports from the Service are that, in many ports, Customs employees are exhausted, that they cannot perform at full efficiency and that morale has dropped dramatically. The net results then are slower processing, reduced enforcement and revenue collection capacity, and an overall decline in the Service. This is an intolerable development in an agency which is a revenue producer in times of overwhelming deficits.

As the intermediary between the importer/exporter and the agency, NCBFAA speaks from the vantage of an association that wants the most productive and efficient possible Customs Service. We see a decline in that objective and urgently seek the Committee's attention to this serious problem.

CUSTOMS AND INTERNATIONAL TRADE BAR ASSOCIATION
233 BROADWAY
NEW YORK, N.Y. 10279
(212) 608-2700

RICHARD J. KAPLAN
PRESIDENT

April 12, 1985

Senator John C. Danforth
Chairman, International Trade Subcommittee
Committee on Finance
Washington D.C. 20510

Re: Budget of Customs Service; Hearing on April 3, 1985

Dear Senator Danforth:

The Customs and International Trade Bar Association appreciates the opportunity to present its comments on the proposed budget of the United States Customs Service. Our Association consists of attorneys who regularly practice before the United States Court of International Trade, the Court of Appeals for the Federal Circuit, and administratively, before the United States Customs Service in Washington D.C. and the several Customs ports, districts, and regions throughout the United States. We have a vital interest in the fair and efficient administration of the Customs laws. It has been our experience that the majority of Customs Service representatives, whom we regularly encounter, make every effort to administer and enforce the Customs laws in a fair and responsible manner. However, such efforts have been sorely tested by recent cutbacks in staff.

The Customs Service is "a rarity amongst government agencies" - an income producing, rather than spending, agency. As one of the only revenue raising agencies in the United States, it seems to make little economic sense to, in any wise, impair the efficient functioning of this agency by cutting back staff or personnel essential for the efficient performance of its mission, which includes the ascertainment and collection of customs duties payable on commercial importations of merchandise into the territory of the United States. In the performance of its mission, Customs' Service personnel also directly administer the laws and regulations of other government agencies. For example, customs officers are on the front lines in administering and enforcing marking requirements, quotas, and other import restrictions established by the Department of Commerce as well as regulations and standards established by the Department of Transportation, Environmental Protection Agency, Food & Drug Administration, and diverse other federal agencies.

While we have no detailed information with respect to the proposed budget, we understand that it calls for substantial cuts in personnel in several areas. We are concerned about any further cutbacks and, in view of recent personnel reductions and changes within the Service, we ask that the Committee look very closely at any budget which is premised on further personnel reduction, whether direct or through attrition.

Through the years, the Customs Service has been known for having experienced, able personnel at Headquarters and in the field. Experts in classification, appraisement, marking, entry procedures, drawback, and enforcement have moved up through the ranks and have provided service to the public, including domestic producers, importers, and their representatives. We see that expertise declining, in quantity and quality, due in large part to cutbacks in personnel and attempts to eliminate or consolidate certain essential functions. Those cutbacks have had several adverse effects. Valuable personnel have left the Service and not been replaced, while those who remain have experienced an increase in workload and a decline in morale. This has been reflected by a very noticeable decline in service and qualitative productivity, some of which are described in these comments.

The Tariff Schedules of the United States (TSUS) are the basis for a complex system of tariff classifications and duty rates. Each customs import specialist has the responsibility for classifying specific categories of merchandise, or product lines within their respective expertise. The import specialists must know how the product involved, is produced, sold, and used, as well as how the legal headnotes and particular tariff provisions apply to that merchandise. Familiarity with administrative rulings and court decisions affecting the merchandise within that line is vital to the import specialist's functioning in an informed, intelligent, and efficient manner. Recent cutbacks have led to consolidation of merchandise lines so that, for example, an import specialist who may have spent years learning about tobacco, now has to classify food products as well. Thus, a greater number of products are now being handled by an import specialist with experience in one line who lacks the product expertise which was previously enjoyed by another specialist. A question that formerly could have been promptly and surely answered takes considerably more time because it is being handled by an office with less expertise, operating under an increased workload. When an import specialist lacks time or sufficient support staff, doubts are often resolved in favor of the government with the explanation that the decision may be protested (administratively challenged) and, if unsuccessful, ultimately challenged in court. At first blush this more arbitrary approach may seem to be more time effective. However, the administrative review procedure is even more time consuming and, in the long run, additional Customs personnel will be required at both the district and headquarter's levels in order to process the increased number of administrative reviews. As the number and caliber of classification experts declines, more decisions will have to be based on administrative convenience with a consequent increase in both administrative and judicial review. The number of actions brought to the Court of International Trade will increase, with the concomitant need for increased government personnel in the Courts, the Department of Justice, and the legal arm of the Customs Service. Litigation is costly to the government as well as to the importer/businessman and domestic industry. There is a reasonable likelihood that it can be avoided, or at least minimized, by retaining and, indeed, restoring the requisite number of teams of experienced import specialists to handle questions at the procedural level, before they mature into controversies.

Drawback claims are generally handled at the regional level. Claimants have the opportunity for discussions, with the regional drawback liquidator, for the purpose of expediting the claim process and reducing the necessity for subsequent time and labor consuming changes or amendments. If the liquidation function is removed from the regions and is centralized in one location, as has been proposed, the opportunity for such time saving discussions, prior to filing, will be lost or greatly diminished and the processing of applications will become more cumbersome, requiring greater subsequent review and more frequent rejection. Centralization into one of the seven existing regions will either necessitate the training of new inexperienced personnel to supplement the drawback staff in the selected (central) region or greatly increase the workload of those in the selected region. Delays in paying drawbacks are almost certain, and are likely to discourage some companies from taking advantage of drawback. Since it is one of the few export incentives offered by Government, nothing should be done to make it more burdensome to file for drawback.

Domestic industries are increasing efforts to obtain relief through the imposition of quotas, and other remedies available under the import relief laws. Administration of quotas takes additional time and manpower. At a time when relief through quotas is increasing, proper staffing is needed at the local and Headquarters level to implement quota programs and to see that other services provided by Customs at the operational level are not curtailed or ignored. It is again emphasized that these services are all directly connected with the collection, rather than expenditure, of revenues by the United States.

Difficulties in coping with the increasing workload are being experienced at Customs Headquarters as well as in field offices. Textile importers had to operate for some months under a cloud of uncertainty because of the delay in publishing, in the

Federal Register, certain final changes in the Customs Regulations. The changes were originally proposed in August 1984 and the time for public comment closed on November 3, 1984, but final regulations were not published until four months later - March 5, 1985. Similarly, the final publication, in the Federal Register, of several pending American Manufacturers protests have been delayed by over four months since final submission to Headquarters.

Resources are continually being transferred to the enforcement area of the Customs Service. While we have no objection to taking appropriate measures to enforce the Customs laws, we suggest that it is just as important to have adequate qualified import specialists and other experts who can timely provide guidance and assistance to the importing public regarding the proper methods of marking, entering, or describing imported merchandise so as to forestall conduct that will otherwise subject them to subsequent time consuming and less productive enforcement procedures. If commercial fraud and negligence are going to be vigorously prosecuted and penalized, there should be adequate experienced, talented, and willing Customs personnel available in order to properly assist and guide the importer who seeks to avoid punitive actions by obtaining non-enforcement oriented administrative assistance. Customs should be encouraging and assisting the prudent importer in his efforts to properly comply with Customs' requirements thereby avoiding the more time consuming, less productive, enforcement procedures. Similarly, the existence of a trained and knowledgeable corps of customs import specialists is essential in order to guide Customs, itself, in pursuing any intelligent, productive program of enforcing the customs laws and regulations for the many different types of products imported into the United States. Without such a cadre of import specialists, Customs' enforcement will be non-productive, less effective, and more susceptible of avoidance.

In summary, in considering the proposed budget of the Customs Service, we request that the needs of the importing public to comply with the Customs laws and regulations be given serious consideration. If the Service lacks the proper number of qualified personnel, at every level, companies involved in exporting from and importing into the United States will be seriously and adversely affected, and international trade will be hindered. We therefore urge that, in evaluating the Customs Service budget, the Committee consider whether the budget will provide adequate funding for the Customs personnel and programs needed to efficiently and effectively administer the multitude of Customs laws and regulations. Any budget which will not meet this objective should be rejected.

Respectively submitted,

Richard J. Kaplan
President

RJK:bb

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April 5, 1985

Senator Bob Packwood
Chairman, Senate Finance Committee
Washington, D.C. 20510

Attention: Ann Cantrel

Dear Mr. Chairman:

The attached statement is hereby submitted for inclusion in the record of your Customs Authorization hearings of April 3.

Sincerely,

J. H. Kent
Washington Representative for
The National Customs Brokers &
Forwarders Association

JHK:rrf
Attachment

F. E. Wallace & Co., Inc.
DRAWBACK SPECIALISTS
One World Trade Center (Suite 4517)
New York, N.Y. 10048

212-432-1960-61

April 2, 1985

To: U.S. Senate Committee on Finance

In the July 5, 1983 Federal Register an advanced notice of proposed rulemaking was published, wherein the Customs Service proposed the removal of operations related to handling and processing the liquidation of drawback claims from the regional level (nine locations) and transfer that function to a central location.

Of the 300 comments filed by the public, all but one vehemently opposed the proposal.

In spite of the overwhelming public opposition to the centralization of drawback, Commissioner Von Raab on February 27, 1985 announced that U.S.Customs will recommend the centralization of drawback in one (1) location in its 1986 Budget appearance before Congress.

In 1985 Congressional Prescription prevented U.S. Customs from centralizing drawback and unless Congress renews this legislative prescription, Commissioner Von Raab plans to proceed with centralization in one location.

F.E. Wallace & Co., Inc. is willing to supply your committee with further details and particulars which we feel will justify the denial of funds for this centralization.

Frank McCarthy, Vice President

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April 2, 1985

Senator John C. Danforth, Chairman
Finance Subcommittee on International Trade
497 Senate Russell Office Building
Washington, D.C. 20510

Dear Senator Danforth:

As practitioners of Customs law in the Houston area, representing importers and Customhouse brokers alike, we have been asked by the Houston Customhouse Brokers and Freight Forwarders Association to offer our comments on the Customs Service's proposal to consolidate the Houston and Dallas appraisement/classification functions in Dallas. Effectively, this means moving the Houston Customs appraisement/classification officers to Dallas/Fort Worth, and possibly the District Director as well.

We believe the ultimate result will be either:

1. A tremendous decrease in regulation of imports through the Port of Houston (hardly a desirable) goal), or
2. A loss of business and jobs from the Houston area to other ports of entry, namely New Orleans and Los Angeles, as well as other East Coast, Gulf, and West Coast Seaports.

Assuming that Customs will not tolerate the first alternative, then the second is almost certain to follow for the following reasons:

1. Transfer of the appraisement/classification function will reduce drastically the ability of the importing community to communicate with the appraisement officers. Houston area importers will be forced to discuss their Customs facts over the phone with an appraisement/classification officer 240 miles away. This effectively eliminates personal contact except for large matters and for companies who can afford to maintain offices in Dallas, as well as Houston. Small importers will be effectively denied the

opportunity of personal communication on their appraisement and classification facts.

One of the importers' most difficult tasks is communicating with Customs. In a world of ever changing laws and import policy, ascertaining Customs' position on classification and appraisement is crucial for avoidance of severe Customs problems in the import process.

2. Restricted merchandise (that which is subject to quota or other special restrictions, and which generally includes extremely sensitive items such as apparel and steel) is almost always entered and released in concert with the appraisement officers' personal involvement (e.g., review of Customs' entries, inspection of the merchandise itself, making of initial classification decisions, and comparison of the merchandise with the criteria for that type of restricted merchandise). If the appraisement officer is in Dallas and the cargo is released in Houston, either:

(a) the appraisement/classification officer will be excluded from the entry process;

(Merchandise scheduled for release in Houston is likely to be released or withheld from release incorrectly. Restricted merchandise which is released from Customs is always subject to recall, or perhaps penalty sanctions. Tremendous uncertainty will result. Business cannot function in an atmosphere of uncertainty. It will be cured by importing through another port. On the other hand, merchandise which is incorrectly withheld from release results in a wrongful and unnecessary expense to the importer. The result of this additional expense to the importer, will be his movement of these importations through some other port.)

Or

(b) The appraisement officer will be included from 240 miles away.

(Release of merchandise will be frequently, delayed, as papers are shuttled from Houston to Dallas, at great (and unacceptable) cost to importers. To remain competitive, Houston importers will shift their imports to other ports, with consequent losses of Houston jobs and business.)

Further, assuming proper regulation of imports, eventually administrative expense must rise, despite Customs' protestations to the contrary.

Guarantees and promises by the Customs Service that this move will not result in a loss of business to Houston, or the imposition of additional restrictions or burdens on Houston importers, should be taken with a grain of salt. For instance, in 1979 when Customs opted to create a new Customs district in Dallas (carving it primarily from the Houston district), Customs met Customhouse brokers' objections to the fact that this might cause them the additional and unnecessary expense of opening new offices in Dallas (where they had operated for years) by promising that there would be no requirement that brokers establish any additional offices. See TD 79-232 at 44 F.R. 48671, 8/20/79. Customs in Dallas/Fort Worth now takes the position that its promises to Houston based Customhouse brokers are "no longer operative."

In recent years, the Customs Service has proposed several times that its technicians be allowed to regulate the importation of sensitive products from a central location hundreds of miles away from the port of entry. This unlikely suggestion has been turned back again and again by the objections of concerned senators, congressmen, importers, and members of the general public. No one benefits from this proposal. It should be rejected again.

Very truly yours,

GIVENS, KELLY AND SHAW

Robert Givens

Robert T. Givens

## QUESTIONS BY SENATOR GEORGE J. MITCHELL TO WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS, AND RESPONSES THERETO

*Question.* I understand the Customs Service intends to close 12 border stations in Maine. What factors were taken into account in the Customs Service decision to close these ports?

Answer. Customs has no plans to close any ports of entry in Maine. However, we are proposing to convert the cost of operating low volume service ports to a reimbursable basis. This plan provides continuing Customs Service on a reimbursable basis.

*Question.* When a border station is closed, does the Customs Service have any special requirements for people that cross between the Canadian-U.S. border on unmanned roads?

Answer. According to 19 USC 1459, any person crossing the border from a contiguous country must report to the nearest Customhouse or port of entry at which the boundary was crossed and shall not proceed until permission to proceed is granted. Therefore, it is a possible violation of Customs law/reporting requirements for any person to cross at an unmanned road, closed port, or station, unless they immediately report to Customs.

However, the Customs Service is exploring ways which would allow the local affected populace to have free movement across the border and still be in compliance with Customs reporting requirements.

*Question.* The Customs Service proposes to close its station at Coburn Gore, Maine. The nearest border station is approximately 140 miles away by road. What does the Customs Service expect of the citizens of the area when traveling over the border at that point?

Answer. What Customs has proposed will affect those locations where minimal amounts of Customs activity occurs, i.e., less than 150,000 vehicles a year or less than 2,500 formal entries a year. We recognize that there will be, in some instances, wide expanses between locations and some inconvenience to travelers as a result. However, our proposal would allow the conversion of these low-volume ports and stations to a reimbursable service port. This allows for continuing service as long as the cost of such service is reimbursed to the Government.

*Question.* I understand that at some unmanned points, the Customs Service directs travelers to the nearest border station. How many miles do you expect people to drive to appear before a Customs border Station? Is there a maximum amount of travel between border stations before the Customs Service believes a border station should be in operation?

Answer. While a consideration, distance is not the single factor used in the placement of ports and stations. Rather, the workload volume and extent of Customs activity at any given location is the major factor in establishing ports and stations.

*Question.* Your proposal would result in a 200–300 mile stretch between Fort Kent and Jackman without a Customs station. What kind of problems do you believe that creates for the citizens of the area? For the businesses that operate on both sides of the border?

Answer. As stated in our previous response to questions 3 and 4, we recognize the inconvenience that will result when the distance between locations is great. Again, the possibility of a reimbursable service port concept and our exploration of alternate reporting methods should help minimize the inconvenience to the local community.

*Question.* I understand the Customs Service proposal for Consolidation and Centralization of Customs Service operations includes a list of "potential reimbursable ports." What does that term mean?

Answer. The Customs Service has identified operating ports that do not meet minimal workload criteria of either 2,500 formal entries, 350 cargo vessel arrivals, 150,000 vehicle arrivals or 2,000 scheduled international aircraft arrivals per year. Customs proposes to convert the operation of these ports to a reimbursable basis, therefore, these ports are identified as "potential reimbursable ports". Congressional action is necessary in order for Customs to operate under this concept and to collect the cost of providing service.

*Question.* Over the last 3 years the U.S. merchandise trade deficit has almost quadrupled. Imports have increased dramatically. Yet as we experience this tremendous growth in imports, the Customs Service is proposing to reduce its personnel by 887 positions, 437 of those in the tariff and trade functions. How can such reductions be made without interfering with your enforcement responsibilities?

Answer. The proposed cutbacks in inspectors and import specialists will not in any way reduce Customs effectiveness in enforcing trade controls, merchandise processing, or revenue collections. Of the 211 inspector average positions in reductions, some 111 inspectors are merely converted to a reimbursable basis and the remainder are non-frontline supervising and management positions. The centralization of appraisement and the implementation of our Automated Commercial System (ACS) will sufficiently increase productivity and provide a computerized system for implementing effective selectivity and processing of merchandise entering our nation's commerce. As a result, the staffing reductions do not impact Customs processing capabilities.

*Question.* Why would a particular border station be placed on the "reimbursable" list as opposed to the "close" list?

Answer. Customs does not propose to close any ports of entry; however, we do propose to convert the cost of operating low volume service ports to a reimbursable basis.

## QUESTIONS BY SENATOR DANIEL PATRICK MOYNIHAN TO WILLIAM VON RAAB, COMMISSIONER OF CUSTOMS

### HEARING BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE

*Question.* The U.S. Customs Service has primary responsibility for drug interdiction at the major points of entry into the United States. Yet, a 1983 General Accounting Office (GAO) report found that, in fiscal year 1982, the Customs Service's interdiction capabilities needed to be strengthened, not reduced. How then, do you justify a budget request that seeks to eliminate approximately 100 staff positions for "tactical interdiction" and "investigation" activities?

Answer. In FY 1986, Customs plans to implement a number of management efficiencies which will generate substantial savings in positions and dollars. The 100 positions you are referring to are managerial and administrative support positions. They are not patrol officers or agents. These position savings are the result of centralizing administrative services and organizational consolidation and realignment. The loss of these positions will not affect Customs interdiction capabilities. In fact, when fully developed and implemented these management efficiencies will improve productivity, streamline program operations, enhance organizational and functional efficiency, and abolish duplicative activities. This will enable Customs to better manage its resources.

*Question.* The GAO study also reported that the combined seizures of all Federal law enforcement agencies stopped less than 10 percent of the heroin and cocaine coming into this country. In your opinion, would it be possible for the Customs Service to better coordinate its interdiction efforts with other agencies, in order to increase the amount of drugs seized? How could this be accomplished?

Answer. As you know, we are involved in the National Narcotics Border Interdiction System (NNBIS). Since the inception of NNBIS, the U.S. Customs Service has been an active and enthusiastic participant. Our goal, and that of all participants, has been to produce the most cohesive and effective narcotics interdiction effort possible at the national level.

Customs executives currently direct the activities of three of the NNBIS Regional Centers. They are the Northern Border, Northeast, and Southwest Regional Centers. We have two personnel serving full time on the Vice President's NNBIS staff, and there are 37 Customs personnel assigned full time to the 6 NNBIS Regional Centers.

NNBIS participates in the planning and execution of special enforcement operations designed to utilize Customs resources to the maximum extent, in conjunction with Department of Defense resources, to further our interdiction efforts.

One of the most important results lies in the improved interagency cooperation and new lines of communication at the Federal, State, and local level. NNBIS has contributed to a more unified focus on the problems involved in narcotics interdiction.

*Question.* The Customs Service made 17,355 arrests in 1984. How many of these arrests were drug related? How many of those arrested later were prosecuted and how many were convicted?

Answer. During calendar year 1984, the U.S. Customs Service made 17,355 arrests, plus another 5,705 cooperative arrests while working with other agencies, for a total of 23,060 arrests.

The formal agreement between Customs and DEA requires that drug-related arrests be turned over to DEA for investigation and prosecution. Therefore, the Customs Service does not track prosecutions nor do we track prosecutions/convictions of individuals processed through state or local jurisdictions.

*Question.* Evidence shows a direct relationship betwen drug addiction and crime. The New York Times on May 20, 1984, for example, reported that the average heroin addict commits 209 crimes each year at a cost of $55,000—exclusive of the crimes of buying and possessing his heroin—just to support his habit. Currently, most drug violations, for smuggling, sale or possession, are prosecuted by state authorities, or not prosecuted at all. Would you think it beneficial to require that all U.S. Attorneys review drug arrests in their district—Federal, state and local arrests—and initiate prosecution under federal law unless state prosecutors have begun such action or no probable cause of action is found?

Answer. Because of the large number of cases in most districts throughout the United States it is not practical for U.S. Attorneys to review all drug arrests within their jurisdiction. However, existing drug task forces, comprising federal, state, and local investigators such as the Organized Crime Drug Enforcement Task Forces, ensure that drug trafficking organizations within their respective areas are targeted for federal prosecution. These task forces also ensure that all applicable arrests are brought to the attention of the U.S. Attorneys.

## Question From Senator Heinz to Commissioner William von Raab, Customs Service

*Question.* How does reducing the rate of physical inspection of entries contribute to enforcement against fraud and evasion of Customs laws?

Answer. Prior to the introduction of selective cargo processing, Customs cargo inspection were normally cursory as inspectors attempted to examine a portion of every shipment, in the fact of a rapidly increasing workload and a need to facilitate the flow of cargo. Forced to look at too much, the inspectors had time to see very little.

Customs selective cargo processing system permits inspectors to concentrate on high-risk, high-value shipments that are more likely to involve violations or errors. The selection criteria for identifying specific shipments for intensive inspection are comprised of:

The results of random inspections;
The experience and intuition developed by Customs inspectors and importer specialists over the years;
The results of examinations based on identified high-risk potential; and
Intelligence information from external sources.

## Comments of the National Customs Brokers & Forwarders Association on the U.S. Customs Service FY 86 Budget

Mr. Chairman: Thank you for this opportunity to testify before the Committee and comment on Customs' budget for fiscal year 1986. The National Customs Brokers & Forwarders Association of America, Inc. (NCBFAA) was founded in 1897 and is the trade association representing this industry in the U.S. The customs brokers members of NCBFAA and its twenty-nine affiliated associations located at major ports throughout America handle approximately 85% of the nation's commercial importations. Forwarders on the other hand expedite the processing of our nation's exports and, together with the customs brokers, perform the day-to-day, at-the-port operations that lies at the heart of our trading system.

Members of our association have been part of the evolution of the U.S. Customs Service since our founding. We have seen the growth and the development of its functions and responsibilities. We have witnessed the swing of the pendulum from the active promotion of trade after WWII to the era of the import surcharge of 1971: its concern for the orderly flow of imports shift to the intensive involvement with narcotics interdiction. We have been through the decentralization of the 1960's and the centralization of the 1980's. At times the deja vu is overwhelming, as we see the same ideas recirculate again and again. We, as an industry whose clients include the majority of the importing and exporting trading community, are extremely concerned the Customs has lost sight of its mission. This time, the pendulum has swung too far.

It is a time when the narcotics problem in the U.S. has reached crisis proportions and the need for drug interdiction resources at the borders and ports is acute. We are witnessing concurrently a flow of imports in record volume and have inadequate resources for detecting import fraud and collecting revenues. We are automating Customs and have little of the staffing necessary to input data and service the system. We are witnessing the flow of our technology behind the Iron Curtain and cannot provide the personnel to implement Operation Exodus, a highly visible program. And, incredibly, we are now working at a budget request that calls for a reduction at Customs of 887 in FY86.

How is this to be achieved? Automate and consolidate, says Customs. In order to meet its obligations in the commercial area, the Customs Service started to automate in 1967, an effort which is only now beginning to show even a modest sign of success. Unfortunately, the seductive nature of automation is such that many functions that could be better performed manually are brought into the system time and again before the module being tested is operating satisfactorily—this has proven to be no more than attempts to "cut the foot to fit the shoe." Personnel in the area affected is reduced, resulting in a breakdown of the automated system with little or no manual backup while volume increases, cargo languishes at airports and piers, backlogs of paperwork proliferate and passengers grumble because of lack of service. And the cost of automation ticks on like a taxi meter. A headquarters Customs official recently declared that the cost of the software to feed the new IBM 3084 is $1,000,000 every three months—and the total system is still not up and running—since 1967. In the meantime, due to shrinkage in personnel, Customs field officials have issued directives stating that: Import specialists will only be available for consultation with importers on an appointment basis and will only accept phone calls regarding "complex case;" Inspectors can only look at cargo at piers from 9 AM to 2 PM in order to be available to examine passengers arriving at airports.

The computer is a valuable tool. Customs must have it to bring itself, as it says, "into the 20th century." But it must also have trained personnel, import specialists, inspectors and administrators in the field. Computers are marvelous aids, but they can't think for themselves. They can't tell if a sweater is ornamented and takes a higher duty or if a handbag violates someone's domestic trademark. And curiously, the absence of a CRT operator or a computer breakdown can close a port down, whereas a trained inspector or import specialist has mobility, can improvise, and keep commerce moving.

Centralization of functions has also been offered as a partial solution to the problem. In many ways it is a sensible approach. But it is no substitute for having personnel at the port who can assist the public and are available to review and insure the correctness of documentation at the time of filing.

Consolidation, while offering that initial appeal, has much the same effect as automation: it deprives the public of access to expertise in a highly complicated and demanding process. And, too, consolidation will have a stifling effect on the ability of many of our key geographic areas to participate in trade and enjoy the benefits of a direct flow of commerce into and out of their ports. Drawback—one of government's initiatives for expanding our dwindling export trade—is a case in point. "Drawback' is a remission in which whole or in part of a customs duty, internal revenue tax, or fee lawfully assessed or collected because of a particular use made of that merchandise. The rationale for drawback has always been to encourage American commerce or manufacturing. It permits the American manufacturer to compete in foreign markets without having to include in his costs, and consequently his sales price, the duty paid on imported merchandise. Drawback claims are generally handled at the regional level. Claimants have the opportunity for discussion with the regional drawback liquidator, for the purpose of expediting the claim process and reducing the necessity for subsequent time and labor consuming changes or amendments. If the liquidation function is removed from the regions and is centralized in one location, as has been proposed, the opportunity for such time saving discussions, prior to filing, will be lost or greatly diminished and the processing of applications will become more cumbersome, requiring greater subsequent review and more frequent rejection. Centralization into one of the seven existing regions will either necessitate the training of new inexperienced personnel to supplement the drawback staff in the selected (central) region or greatly increase the work load of those in the selected region. Delays in paying drawbacks are almost certain, and are likely to discourage some companies from taking advantage of drawback. Since it is one of the few export incentives offered by Government, nothing should be done to make it more burdensome to file for drawback.

Yet, given these plans for reduction and consolidation, how well is Customs doing with the resources now at their disposal? Reports from across the nation indicate that Customs is understaffed. Automated equipment is inadequately utilized because there are insufficient clerks to input data. Narcotics flow into our country is unabated. Even in Florida, where the primary focus has been directed, best estimates of intercepted cocaine and marijuana are only in the 20–30% range. Cargo remains delayed on the docks for greater periods of time than ever before and our members spend their time explaining to customers why shipments are late and to truckers about the amount of the demurrage. Reports from the Service are that, in many ports, Customs employees are exhausted, that they cannot perform at full efficiency and that morale has dropped dramatically. The net results then are slower processing, reduced enforcement and revenue collection capacity, and an overall decline in the Service. This is an intolerable development in an agency which is a revenue producer in times of overwhelming deficits.

As the intermediary between the importer/exporter and the agency, NCBFAA speaks from the vantage of an association that wants the most productive and efficient possible Customs Service. We see a decline in that objective and urgently seek the Committee's attention to this serious problem.

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